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Downsizing in Germany key to global success
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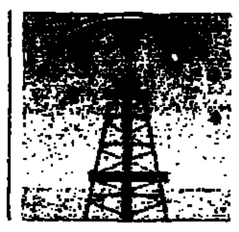

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World Business Newspaper http://www.FT.com WEDNESDAY JUNE 25 1997

Thailand acts to restore stability in finance sector

Thailand's cabinet has approved four emergency decrees aimed at helping to restore stability to financial institutions by removing obstacles to mergers between troubled and healthy finance companies. But the government stopped short of the radical overhaul of the financial system many believe is needed to get Thailand's economy back on track. Page 14

EU plans new transport links: Proposals to extend the EU's strategic transport network have been presented to European transport ministers in Helsinki. The plan is to create 10 improved road and rail transport corridors through central and eastern Europe, and to improve sea connections and ports giving access to Asia and North Africa. Page 3

Blair to give IRA last chance: British prime minister Tony Blair is to give the IRA a final chance to declare a ceasefire in Northern Ireland by disclosing details of a discreet government letter to Sinn Féin and a new approach by the British and Irish governments to paramilitary weapons. Page 14

Vendôme loses Lagerfeld: Luxury goods group Vendôme announced the acquisition of two watchmakers but said it had lost the services of fashion designer Karl Lagerfeld. Chairman Joseph Kanoui said Stella McCartney, daughter of ex-Beatle Sir Paul, was a good choice to succeed Mr Lagerfeld at the Chloé fashion house owned by Vendôme. Page 15

Wachovia in banking deal: There was further consolidation of US banking as Wachovia, a North Carolina-based commercial bank, bought Central Fidelity Banks of Virginia in a stock swap worth $2.3bn. It is the second Virginian bank Wachovia has bought this month. Page 15

Netscape gains encryption approval: The US Commerce Department has granted Netscape Communications export approval for internet browser software with strong encryption capabilities. The company can also now export server software with encryption, but only to banks – which are deemed trustworthy. The approval is expected to spur the use of internet banking but does not signal a change in the hardline US policy towards encryption exports.

Ruling to speed Spanish sell-offs: Privatisations are to be speeded up in Spain after the government decided new companies should be allowed to be listed on Madrid's Bolsa. This could pave the way for partial flotation of CSI Corporación Siderúrgica, the last big EU steelmaker still in state hands. Page 4

Mexico completes rail sell-off: Transportación Ferroviaria Mexicana, a Mexican-US rail consortium, has taken control of Mexico's most important railway line in a $1.4bn deal which completed the country's most fraught sell-off. Page 15

Egypt fails to break deadlock: Intensive efforts by Egyptian diplomats to revive Middle East peace talks have failed to break the deadlock between Palestinian and Israeli negotiators, and left Egypt exposed by the apparent weakness of its negotiating role. Page 7

China plans to export electricity: China is planning a 1500 mega-watt hydroelectric plant to export electricity to Thailand – the first Chinese power project designed to serve a foreign market. Page 8

Cambodia's PMs set poll date: Cambodia's two warring prime ministers, Norodom Ranariddh and Hun Sen, have agreed to hold general elections next May in a move that will sharpen the country's political infighting and may speed talks on the fate of Pol Pot and other Khmer Rouge leaders. Page 6

Van Gogh fetches £8.8m: A farming scene by Dutch artist Vincent van Gogh was sold at Sotheby's in London for £8.8m ($14.5m) – in less than two minutes. An anonymous telephone bidder bought the painting, Harvest in Provence. Although Sotheby's refused to reveal the buyer's identity, the purchaser is believed to be American.

Correction: The picture on Page 1 of yesterday's FT was of Danish environment and energy minister Svend Auken and not of prime minister Poul Nyrup Rasmussen. We regret the mistake, the result of a news agency error.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7635.02	(+30.76)
NASDAQ Composite	1438.15	(+3.83)
Europe and Far East		
CAC40	2784.76	(+22.58)
DAX	3755.82	(+1.10)
FTSE 100	4596.3	(+20.5)
Nikkei	20,341.93	(-94.21)

US LUNCHTIME RATES

Federal Funds	$5\frac{3}{8}$%
3-mth Treas Bills: Yld	5.124%
Long Bond	$98\frac{3}{16}$
Yield	6.690%

OTHER RATES

UK: 3-mo Interbank	$6\frac{15}{32}$%	($6\frac{3}{4}$%)
UK: 10 yr Gilt	$100\frac{17}{32}$	($100\frac{3}{32}$)
France: 10 yr OAT	99.27	(98.82)
Germany: 10 yr Bund	102.32	(102.16)
Japan: 10 yr JGB	104.5573	(104.198)

NORTH SEA OIL (Argus)

Brent Dated	$17.60	(17.545)

GOLD

New York: Comex	$337.8	(339.4)
London: close	$338.55	(338.30)

DOLLAR

New York: lunchtime		
£	1.66425	
DM	1.7264	
FFr	5.8289	
SFr	1.4410	
Y	114.94	
London:		
£	1.6660	(1.6643)
DM	1.7240	(1.7224)
FFr	5.8206	(5.8111)
SFr	1.4374	(1.4342)
Y	114.85	(115.475)
Tokyo close:	Y 114.65	

STERLING

DM	2.8721	(2.8666)

9 770174 736135 26

Germany reassures allies over Eurofighter

Waigel describes project as 'absolutely necessary'

By Ralph Atkins in Bonn

Mr Theo Waigel, Germany's finance minister, has given the clearest indication yet that the country will give the go-ahead for the long awaited Eurofighter aircraft programme.

Mr Waigel said yesterday he believed the aircraft would be built and described the project as "absolutely necessary" for Germany's defence plans.

His comments boosted hopes that the German cabinet would reach formal agreement on funding for the four-nation combat-jet project early next month. Further delay could jeopardise the $66bn programme.

The Eurofighter project also includes the UK, Italy and Spain, which have become frustrated at Germany's inability to take a formal decision. Some 75,000 jobs are at stake.

However, Mr Volker Rühe, federal defence minister, last night warned that the project still depended on his ministry's winning agreement with Mr Waigel on the overall defence budget. Mr Rühe is fighting to defend his budget against cuts which he fears would hit the effectiveness of Germany's armed forces.

Mr Waigel was speaking after a meeting with Mr Manfred Bischoff, chairman of Daimler-Benz Aerospace (Dasa), which has threatened to stop its investment in the programme if a decision is not reached soon. Dasa described the meeting as taking place in "a constructive atmosphere" with a joint determination to see the project succeed.

Germany is expected to purchase 180 Eurofighters, but the project has become embroiled in fierce debate in Bonn on budget priorities. Germany is struggling to finance the cost of high unemployment while seeking to fulfil budget criteria set for membership of the single European currency. An estimated DM850m ($494m) for the Eurofighter is thought to be needed in the 1998 budget.

Dasa has offered to help with funding for the project by bringing forward the repayment of the DM1bn launch aid it received for the development of Airbus airliners, which had not been due until after 2000. But Mr Waigel is understood to have not yet concluded his discussions with Dasa. Further meetings are expected soon.

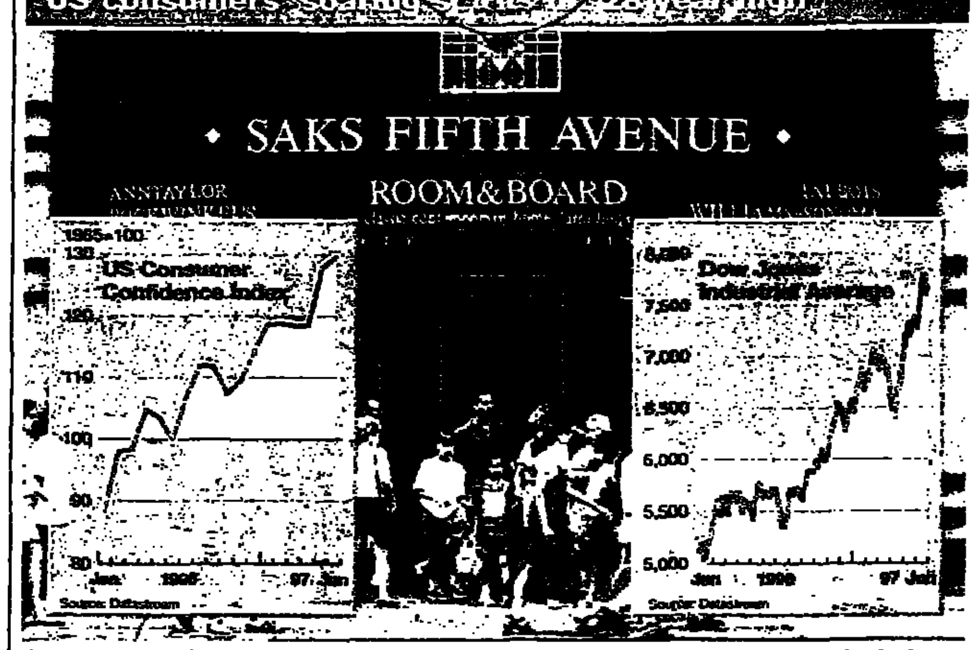
Mr Waigel and Mr Rühe are due to meet tomorrow for further discussions over the defence ministry's budget, although a final deal between the two ministers is not expected until nearer a cabinet meeting scheduled for July 11.

Mr Rühe said the Eurofighter could be financed "if I receive, as promised, a 1998 budget of approximately DM47bn, and mid-term financing plans remain as approved, and, in addition, the Dasa refunding is available."

Mr Waigel has an incentive to see the Eurofighter succeed because of the impact on jobs in Bavaria, the home state of his Christian Social Union. (CSU). But the project has this week received powerful backing from other members of Chancellor Helmut Kohl's ruling coalition. Mr Wolfgang Schäuble, parliamentary leader of Mr Kohl's Christian Democratic Union and the CSU, said it was important that such an important defence co-operation agreement between European countries was seen through to a successful conclusion.

However, Ms Ingrid Matthäus-Maier, finance spokesman for the opposition Social Democratic party, said there were insufficient funds for the Eurofighter in the defence ministry's budget.

US consumers' soaring spirits hit 28-year high



Economic expansion has left US consumers feeling more confident than at any time in the last 28 years, according to the Conference Board. The business research group said its index of consumer confidence reached its highest since August 1969. Meanwhile, Japan sought to tone down a veiled threat to sell US Treasury bonds. Report, Page 14 and Lex; Financial muscle, Page 6; Barry Riley, Page 15; Bonds, Page 24; World stocks, Page 36

Ronaldo transfer falls foul of a legal tackle

By Patrick Harverson and Jimmy Burns in London

The Brazilian striker Ronaldo may have to wait to become the world's most expensive footballer after the Spanish football federation last night tried to block his £16.5m ($27.2m) transfer from Barcelona of Spain to Inter Milan of Italy. The Spanish authorities claim the deal contravenes international transfer regulations.

Speculation that the transfer was unlawful has intensified since Ronaldo's agent last week said the 20-year-old had bought out his contract with Barcelona for Pta4bn (£16.5m) and signed for Inter on a free transfer as an out-of-contract player.

Ronaldo's move would mean the Brazilian replacing England's Alan Shearer, transferred from Blackburn Rovers to Newcastle United for £15m last year, as football's highest-priced star.

Ronaldo is considered the world's most exciting player and is Fifa's 1997 Player of the Year. Several clubs have tried to sign him.

Inter appeared to have succeeded until yesterday when Mr Michel Zen-Ruffinen, deputy secretary of Fifa, football's governing body, said Spanish football regulations that allowed a player to buy out his contract and join another club on a free transfer applied only to moves within Spain.

"The provision is strictly Spanish law and does not apply internationally," said Mr Zen-Ruffinen.

His comments prompted Mr Geraldo Gonzalez, general secretary of the Spanish football federation, to call for Fifa to arbitrate.

Fifa rules say a player cannot move to another country after buying out his contract without his new club paying a fee to his old one. The Spanish club will reportedly ask Inter to pay another £15m as a transfer fee on top of the £16.5m the Italian club has already paid Ronaldo's agent to buy out his contract.

Ronaldo: player of the year

"This is going to turn into a very tough football match between the Spanish and Italian federations in Zurich (the home of Fifa)," said Mr Gonzalez last night.

"It will go into extra time and be decided by penalties. We're going to sweat it out."

The Spanish federation, with Barcelona's help, is preparing a report for Fifa detailing the history of the club's relationship with Ronaldo and arguing its case that Inter are in violation of Fifa rules.

"What we are defending is equal rights – those of Spanish football clubs to have the same transfer rules as the rest of European football," Mr Gonzalez said.

Barcelona's senior administrator Mr Jaume Pares said: "As far as we are concerned, Ronaldo still belongs to Barcelona football club." There was no comment from Inter last night.

Eurotunnel urged to seek more long haul rail freight

By George Parker and Ross Tieman in London and Andrew Jack Paris

The British government is refusing to extend Eurotunnel's operating concession without guarantees from the company that it will seek to carry more long haul rail freight.

Mr John Prescott, deputy prime minister, wants the Channel tunnel operator to work with UK and French railways to cut the amount of freight carried on Europe's roads. The UK position was spelled out to senior French officials yesterday.

Eurotunnel claims an extension of up to 100 years in its exclusive licence to operate tunnels between Folkestone and Calais is essential to persuade shareholders to back its £8.5bn ($14.02bn) financial restructuring plan.

Mr Prescott raised his concerns with Mr Patrick Ponsolle, the French joint-chairman of Eurotunnel, last week when Mr Ponsolle appealed to him to extend the company's concession. The French government has signalled its willingness to extend the concession, which is due to expire in 2052.

Last night Eurotunnel said it would do all in its power to encourage more freight from the UK to use the tunnel.

Observers say that while there is no shortage of freight capacity through the tunnel, or on the lines connecting it to the national rail networks of the UK and France, railway companies in Britain and France have failed to maximise use of the tunnel.

The purchase of Railfreight Distribution, the former BR freight business, by US-owned English Welsh & Scottish Railway has yet to be approved by the European Commission, raising fears that freight shippers will sign contracts with ferry companies.

At a presentation to shareholders in Paris yesterday, Mr Ponsolle said talks between the two governments had "the

Continued on Page 14

Japan's largest bank to convert loans to bonds

By Gillian Tett in Tokyo and Edward Luce in London

The Bank of Tokyo Mitsubishi, Japan's largest bank, is planning to convert up to Y3,000bn ($26bn) of its loans into international bonds.

BTM's decision to securitise up to 10 per cent of its loan portfolio is part of a growing trend by leading Japanese banks to try to improve their appeal to equity investors in advance of Japan's planned Big Bang deregulation of the financial sector next year.

In the next three years BTM hopes to raise its tier 1 BIS capital ratio – the measure of core financial strength – from its current 4.97 per cent level to over 6 per cent.

It also hopes to push its return on equity to over 8 per cent compared with 1.5 per cent in the year to March 1997 when the bank made large bad loan provisions.

BTM officials say the amount it eventually decides to convert into securities depends on the performance of the bank's first securitised issue, a Y105bn bond, which includes a $525m US dollar tranche, launched in London last week.

The three-year bond, the largest Asian securitised bond ever issued, was placed by Wizard Finance, an offshore company set up by Bank of Tokyo Mitsubishi (BTM) in the Cayman Islands.

A securitised – or asset-backed – bond is debt which is backed up by the income stream from collateral such as mortgage repayments, credit card receivables or loan portfolios.

BTM's move may also give fresh impetus to Japan's own securitisation market, which has hitherto been underdeveloped because of tight regulations.

The Japanese government recently promised to lift these restrictions next year, as part of Big Bang. If these reforms go ahead, part of BTM's securitisation could take place in Japan, rather than in London.

A bank official said: "We decided to start in Europe because the regulations are not so strict. But if reforms happen we will probably want to use the domestic market as well. In Japan there is a broad range of investors with deep pockets."

Some other Japanese banks are now also seeking to take loans off their books. Sanwa, for example, recently concluded a Y30bn securitisation scheme to remove some bad loans from its books.

"Japanese banks are likely to become very large issuers of securitised debt in the overseas dollar markets," said an analyst in London yesterday. "Issuing securitised bonds will help Japanese banks to make their capital work harder."

But analysts pointed out that not all Japanese banks could afford to copy BTM's move.

Meanwhile, two other Japanese banks yesterday also announced separate reforms to prepare for Big Bang. Sakura bank, a large commercial bank, and Shizuoka, a regional bank, will each ask their shareholders this week to approve changes to permit share buy backs of up to 10 per cent of all shares. No bank has taken such a move before in Japan. However, Sakura yesterday said it had no concrete plans for a share buyback yet.

CONTENTS

NEWS: EUROPE

French bank chief's warning on Emu

By David Owen in Paris

Mr Jean-Claude Trichet, Bank of France governor, warned the country's leftwing government yesterday that he needed to stick to Maastricht criteria for European monetary union if it wanted its fight against unemployment to be effective.

In remarks coinciding with publication of the bank's annual report, Mr Trichet said it was "unthinkable" that countries such as France and Germany, which looked set to exceed budget deficit limits set down in the treaty, should not take corrective measures.

He also warned that postponing the single currency beyond its planned January 1, 1999 start date would lead to "an enormous risk of the de facto annulment of the treaty".

"I don't believe in [a postponement] for one second," he said. "The euro will come into being on January 1, 1999."

However, Mr Dominique Strauss-Kahn, finance and industry minister, gave the firmest indication yet by a leading government figure that the country's public deficit was on course to overshoot this year's target of 3 per cent of gross domestic product. This is the level that France, like other EU members, needs to attain if it is to qualify automatically for monetary union.

Mr Strauss-Kahn told MPs that everything led him to think the budget would not be "held as it has been voted". "The prime minister said in his general policy statement that the budgetary situation was serious – and indeed it is," he said.

He announced that the special audit of public finances that the government had ordered would be submitted on July 21 and published immediately.

With nearly a month passed since the left's surprise general election victory, the government of Mr Lionel Jospin, the prime minister, has still given little idea of how it plans to reconcile its desire for monetary union to start on time with its other policy objectives.

"If it became apparent that we could not or did not want to respect the criteria," Mr Trichet said, "we would lose much more in terms of job creation, as a result of the loss of national and international confidence, and in the increase of our interest rates, than we think we would gain from the supplementary deficit."

Mr Eric Chaney, senior economist with Morgan Stanley in Paris, said he interpreted Mr Trichet's remarks as "a very strong warning to the government that fiscal policy had to be corrected so as to prevent this year's French budget deficit rising above 3.5 per cent".

The Bank of France governor also said that both the total level of tax and social security contributions – at 45.7 per cent of GDP in 1996 – and overall public expenditure (54.7 per cent of GDP) were "clearly too high".

Jospin hits out at results of summit

French PM says greater weight should be given to concerns of Paris and European neighbours

By David Owen in Paris

Mr Lionel Jospin, the French prime minister, said yesterday that he was "not satisfied" with the results of the recent "Summit of Eight" in Denver and accused the US of trying to impose its economic and social model on Europe.

In comments in the French National Assembly, Mr Jospin, who did not attend the summit, said it would be necessary in future to make sure that French and European concerns carried greater weight.

But he refrained from direct criticism of Mr Jacques Chirac, the Gaullist president, who was France's chief representative at the meeting, and with whom the Socialist Mr Jospin faces the uncomfortable prospect of five years of "cohabitation" after the left's unexpected election victory this month.

The summit urged Europe's three biggest economies – Germany, France and Italy – to carry out structural reforms to combat high unemployment.

But Mr Chirac said he remained attached to Europe's social model.

There was also a row over pollution, with European leaders reacting angrily after failing to persuade the US and Japan to adopt explicit targets for reduction of greenhouse gases.

In remarks interpreted as a reference to the US, Mr Jospin told MPs he saw "a certain tendency towards hegemony, which is not necessarily identical with exercising the global responsibilities of a great power, even if it is a friend".

He said Europe did not have the same model of society as the US and had always tried to preserve a balance between economics and social priorities.

"Europe does not have the US's attributes of power," he said. "The rules that may apply in the wake of that considerable power in the US cannot be as effective in Europe," he added.

The French prime minister also indicated he was not satisfied with the results of the European intergovernmental conference.

Editorial Comment and Ian Davidson, Page 12

A mother demonstrates in Paris yesterday against government limits on family allowances. The banner reads: "Prime ministers will pass. Families will last" AP

Norway war probe in disarray

By William Hall in Geneva

A Norwegian government commission set up to investigate the fate of Jewish property confiscated during the second world war has failed to reach an agreement on one of the most controversial episodes in Norway's history, a commission member said yesterday.

Ms Berit Reisel, one of two Jews serving on the commission, told a conference in Geneva that the commission was so split that it had decided to publish two separate reports.

Norway, which was occupied during the war, has been at the forefront of countries starting to re-evaluate their wartime conduct. Its decision to set up a seven-strong commission in early 1996 to investigate the fate of Jewish property confiscated by the wartime quisling government was held up as a model of how civilised societies should attempt to come to terms with their past.

Norway's decision to publish a majority and minority report is a sign that, far from defusing the sensitive historical controversies, these types of investigations can be embarrassing for the governments involved.

The majority took the view that their task was to settle estates and account for assets. The minority believed that the issue could not be addressed without setting it in a "historical perspective and putting it in a moral framework".

Ms Reisel said that Norway had ended up as a model of "what you should not do". However, she was confident that Mr Thorbjorn Jagland, the Norwegian prime minister, would support the minority report.

On receiving the report, Mr Jagland issued a statement indicating that the losses of Norway's former Jewish population could not "be limited to an estimate of material sacrifice".

"We cannot rectify what happened, but we can set a moral standard to remind present and future generations of this dark chapter in European history," he said.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigila, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6988. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.
© The Financial Times Limited 1997. Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

EUROPEAN NEWS DIGEST

Çiller rejects Yilmaz link

Turkey's rival conservatives made no progress yesterday in talks about forming a coalition government, reviving the Islamist Welfare party's hopes of a return to power.

Mrs Tansu Çiller, leader of the True Path party which had been in coalition with Welfare, said she had refused even to consider an offer from Mr Mesut Yilmaz, head of the Motherland party, to forge an anti-Islamist government under his leadership. "I did not discuss the government issue, so as not to legitimise Yilmaz's position," she said after a 20-minute meeting with him.

Mrs Çiller says President Suleyman Demirel should have named her instead of Mr Yilmaz to replace the Islamic-led coalition that collapsed last week after pressure from the military.

Mr Yilmaz is still around a dozen votes short of the simple majority needed to win a confidence vote in the 550-member parliament. Mr Necmettin Erbakan, the outgoing Islamist prime minister, gave Mr Yilmaz little chance of filling his shoes. "As soon as parliament refuses a vote of confidence in a Yilmaz government, he will have to hand back the mandate. I believe this will be obvious tomorrow at the latest," Mr Erbakan told a meeting of his deputies. *Reuter, Ankara*

Easier ride for the forint

Hungary is to trim the monthly devaluation of the forint by 0.1 of a percentage point to 1.0 per cent from August 15 and will reduce the base rate from the current 21.5 per cent to 21 per cent effective on July 1.

Mr Peter Medgyessy, finance minister, said yesterday that preliminary agreement had been reached with the prime minister and the head of of the national bank on the cut in the crawling peg after inflation figures for the first five months had been in line with forecasts. Year-on-year consumer inflation stood at 17.7 per cent in May, down from 18.9 per cent in January. The government forecasts a fall in inflation of some five percentage points this year to 13.5 per cent.

Hungary's improving economic performance was rewarded yesterday with an upgrading in its international credit rating from BBB- to BBB by the IBCA European credit rating agency. The turnaround in Hungary's external debt position since 1994 was "unparalleled in any rated emerging market in recent times," said the agency. Large early debt repayments using receipts from privatisation have helped Hungary cut its debt service ratio (debt service as a percentage of export earnings) to 24 per cent this year from 41 per cent in 1996.

Kester Eddy, Budapest and Kevin Done, London

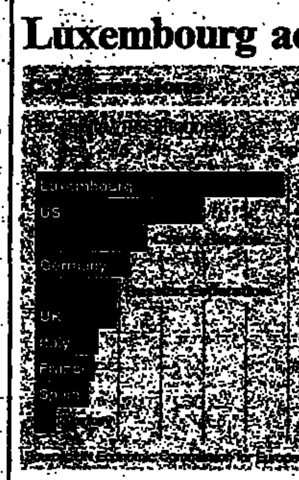
Bavaria blocked on abortion

The German constitutional court yesterday blocked a move by the state of Bavaria to introduce tougher restrictions on abortion than those laid down in national law. The court ruled that key parts of Bavaria's law on abortion should not be implemented until the high court had completed a full examination of their implications.

The measures, due to come into force in the strongly Roman Catholic state on July 1, stipulated that doctors could earn no more than a quarter of their incomes from abortions and limited the number of doctors permitted to carry out terminations by authorising only gynaecologists with a special licence.

Bavaria's social affairs minister, Ms Barbara Stamm, said she was confident the court would have no objections to the measures once it had studied them in detail. The court said only 14 gynaecologists had applied for the special licences at the moment when it came to make its decision, meaning Bavaria could not fulfil a legal obligation to provide local health care for women considering an abortion. But Ms Stamm said this should not be a problem when the court came to its final verdict as 56 doctors had now applied. A final decision is not expected before the end of the year. *Reuter, Karlsruhe*

Luxembourg accused on CO_2



Though the US is the biggest overall source of carbon dioxide emissions that warm the earth's atmosphere, tiny Luxembourg is a far worse culprit in per capita terms, according to the Geneva-based United Nations Economic Commission for Europe. The ECE's latest statistical yearbook* shows that Luxembourg dumps almost 30 tons of CO_2 into the atmosphere for every one of its 410,000 population. Emissions of CO_2, mainly produced by burning fossil fuels such as oil, coal and gas, vary widely between the ECE's members in eastern and western Europe and North America.

The US, which emits nearly 20 tons of CO_2 for every citizen, came in for strong criticism at last weekend's Denver summit for refusing to endorse the European Union's target of reducing emissions by 15 per cent from 1990 levels by the year 2010. Mr Tony Blair, UK prime minister, said on Monday at the UN's environmental summit in New York that Britain would adopt a 20 per cent target reduction. *Frances Williams, Geneva*

**Trends in Europe and North America 1996-97, Sales NO.E.97.II.E.5. Available from UN Sales Section, 1211 Geneva 10, $35.*

Polish balanced budget denial

Mr Wlodzimierz Cimoszewicz, Poland's prime minister, said yesterday that a balanced budget was impossible next year despite a statement by the deputy president of the central bank that only by balancing the 1998 budget could the country avoid a Czech-style financial crisis. "There is no such possibility. In Poland it would require deep budget spending cuts and I do not see such a possibility," Mr Cimoszewicz said.

The Rzeczpospolita daily newspaper had earlier quoted Mr Witold Kozinski, deputy head of the central bank, as saying that Poland would have to get rid of the budget deficit, planned at 2.8 per cent of GDP this year, to prevent its trade deficit from widening to unacceptable levels. *Reuter, Warsaw*

EU ministers prepared to block switch of subsidies to beef farmers hit by 'mad cow' crisis

Fischler faces defeat over arable cuts

By Neil Buckley in Luxembourg

European Union farm ministers are today set to force Mr Franz Fischler, EU agriculture commissioner, to ditch plans to cut aid to cereal farmers and use the money to support beef farmers devastated by the "mad cow" crisis.

Mr Fischler vowed last night to stick by his plan to reduce subsidies on arable land by 7 per cent, saving about Ecu1.4bn ($1.6bn). But with 12 of 15 ministers opposed, and only the UK, Sweden and Denmark in favour, the arable cut is unlikely to be part of this year's agricultural prices deal – due to be thrashed out today after three days of bargaining.

The European Commission says cereal farmers have been over-compensated by Ecu8.5bn over the past four years for forecast falls in prices which never happened. Much of the money has gone to large, wealthy "grain barons", particularly in the UK, France and Germany.

That makes the cereal budget the natural place to seek the Ecu1.3bn needed to support beef farmers, who have suffered steep falls in prices since the disclosure of a possible link between mad cow disease and a fatal human brain disease.

But EU ministers, under pressure from the powerful cereal lobby, say it is unfair to make grain farmers pay for a beef crisis which was not of their making.

Rejection of the arable aid cut bodes badly for prospects for reform of the Ecu41bn common agricultural policy, which still accounts for nearly half the total EU budget. Mr Jacques Santer, Commission president, will present Brussels' reform proposals on July 16, before consultations begin in the autumn.

Revision of the CAP, which supports EU farm prices at above world levels, is essential if the Union is to absorb poorer, agriculture-dependent countries from central and eastern Europe. The issue has become even more important since EU leaders effectively ducked other reforms aimed at paving the way for enlargement, including a shake-up of the EU's institutions, at last week's Amsterdam summit.

Mr Fischler says reducing farm prices towards world levels and more balanced farm subsidies are vital, if an enlarged EU is to avoid budget crises and the creation of new food mountains that would dwarf those of the 1980s.

But EU ministers in Luxembourg accused the commissioner of trying to pre-empt the broader reform process by tacking a significant change in farm policy on to the routine price agreement.

They said an expected surplus in the agriculture budget could be used to support beef farmers – although Commission officials said no surplus was forecast for next year, and it was not now clear where the money for the beef support would come from.

Ministers' unwillingness to tackle arable aid is likely to fuel resentment among beef farmers. While Brussels has estimated that grain farmers have been over-compensated by Ecu8.5bn, a UK study, based on different methods, put the figure at Ecu17bn.

The aid, set in 1992, was supposed to compensate grain farmers for falls of up to 30 per cent in prices, but in fact world shortages, caused by drought and poor harvests, have kept prices high.

Cunningham threatens to ban EU beef, Page 10

At the ready, a force to be reckoned with

Hungary is on track for admission but the cost of membership will be a tall order, writes **Anatol Lieven** in the first in a series on the three countries most likely to be invited to join Nato in Madrid on July 8

NATO LOOKS EAST

The Hungarian armed forces have come a long way in the seven years since they were Soviet auxiliaries in the Warsaw Pact. Conscripts say that compared with other former Warsaw Pact forces, conditions of service have improved markedly "though it will probably be quite a time before they start wearing ponytails, like the Dutch," as a western soldier put it.

In other fields too, the Hungarians have made important changes in preparing for membership of the Nato military alliance. Especially since the appointment of the new chief of the defence staff, General Ferenc Vegh, a number of Soviet-era senior officers have been replaced, and staff structures radically reformed. A new command system is to be set up in the autumn, intended to integrate Hungary into Nato command structures.

Training has been completely reshaped, and more than 700 officers have graduated from western military academies – a large number, of armed forces of only 60,000 men.

Hungarian soldiers have participated in 15 international peacekeeping missions, albeit mostly in small numbers. Of critical importance, however, in terms both of integration into Nato and of winning the sympathy of the US senate for Hungarian membership, has been Hungary's role as a logistical base for the Nato-led forces in neighbouring Bosnia.

The Hungarians plan to set up by 1999 a 2,000-man all-professional force for rapid deployment on Nato missions. Mr Gyorgy Keleti, defence minister, has said that the hope is to eliminate conscription and create all-professional forces by 2010.

He admits, however, that this will be difficult given constraints on spending. Despite a 30 per cent pay rise in February, pay for regular soldiers is only between Ft23,000 and Ft29,000 a month, and this year only 800 people have applied for 2,000 places. The government is trying to boost the appeal of military careers with promises of English language courses and training trips to the west.

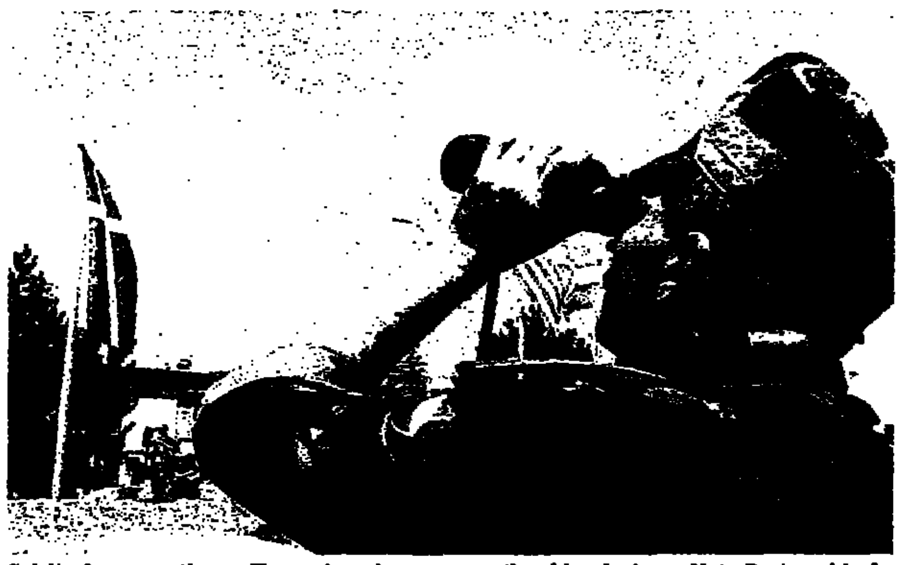
One continuing problem with integration into Nato is said to be relative lack of inter-operability of Hungary's overwhelmingly Soviet and Russian made weaponry with the equipment of Nato forces. US arms salesmen in particular have laid great emphasis on this as an argument for Hungary to buy F16 or F18 fighters to replace its existing MiGs.

But a western military attache advises caution: "This inter-operability business is largely a myth. Nato already has 19 different types of fighter aircraft in service, and the commonality between them is negligible. That didn't stop them working well together in the Gulf. Any modern fighter aircraft can be made compatible with Nato as long as they have the right communications."

The objection of many ordinary Hungarians to the proposed fighter purchase is cost, estimated at around $1.5bn. The Hungarian defence ministry has not issued any overall estimate of the cost of Nato membership, but Mr Keleti has suggested that necessary modernisation, with or without Nato membership will cost an additional Ft10bn-Ft12bn a year. One reason why it has not been possible to be more specific so far – considerations of public opinion aside – has been that until Hungary is formally accepted as a future member, Nato has not been able to release classified information about Nato equipment.

To bring its overall level of military spending up to average Nato country figures, Hungary would have to raise the proportion of its gross domestic product it spends on defence from the present approximate figure of 1.3 per cent to 3 per cent a year. This year, spending has already risen faster than inflation.

Opinion polls show that the vast majority of Hungarians are very unhappy about this. Although a small but growing majority do favour Nato membership, 25 per cent remain opposed, mainly on grounds of cost. According to an opinion poll by Gallup in February, even a surprising 17 per cent of Hungarian regular soldiers were against Nato membership and another 26 per cent were undecided.



Spirit of co-operation: a Hungarian airman scans the skies during a Nato Partnership for Peace operation last year which involved 16 former Soviet bloc nations

EU seeks to cast transport net wider

By Charles Batchelor, Transport Correspondent, in Helsinki

Proposals to extend the European Union's strategic transport network into central and eastern Europe and across the Mediterranean, Black and Arctic Seas were presented to European transport ministers meeting in the Finnish capital, Helsinki, yesterday.

The plan is to create 10 transport corridors through central and eastern Europe by upgrading existing road and rail links and to improve sea connections and ports giving access to Asia and North Africa.

But earlier plans to expand cross-border transport links within the EU are making disappointingly slow progress, partly because of financing difficulties, politicians and officials said.

Meanwhile, delays of up to 60 hours at road crossings on the Union's borders with Russia and Poland are reducing the value of time savings made within the EU.

Mr Neil Kinnock, the transport commissioner, blamed the delays on "byzantine customs procedures", and deficiencies in training and in the infrastructure of border crossings. "This has now got to the status of an emergency," he said.

The three-day Pan-European Transport Conference, organised by the European Commission and the European Parliament, has no decision-making powers but is the main European forum for discussing transport issues.

It is expected today to adopt a formal declaration of support for extending transport networks.

The EU, together with national governments, has drawn up plans for nine transport corridors in eastern and central Europe estimated to cost a total of Ecu50bn-Ecu70bn ($56bn-$79bn) and agreed to a tenth, through former Yugoslavia to Greece. The EU has made an early start on transport links to its east so that prospective members do not develop incompatible networks.

The corridors qualify for pump-priming funding from the EU but are expected to be financed by a combination of government and private funds.

They include a 1,830km route with parallel road and rail links between Berlin and Moscow and a 3,400km link between Helsinki and Alexandroupolis in Greece. There are also plans to remove bottlenecks to navigation on the River Danube.

> The corridors are expected to be financed by state and private funds

Some countries called for further changes to the proposed corridors to reflect changing traffic flows. Estonia urged the extension to St Petersburg in Russia of a corridor planned between Poland and the Baltic states.

The EU hopes to persuade governments to favour inter-modal transport on these corridors, moving long-distance freight by rail with road used only for shorter connections, and to apply modern traffic control techniques.

The establishment of four pan-European transport areas covering the seas around Europe is intended to integrate port and shipping planning into the land-based networks. The four areas covered are the Barents and Arctic Seas, the Black Sea, the Mediterranean and the Adriatic. The European Commission plans to publish a ports strategy in the autumn.

US action blocks loan for Croatia

By Anthony Robinson, East Europe Editor, in London

The World Bank has delayed indefinitely, at the request of the US government, a meeting which had been due to approve a $30m loan for Croatia. The move is intended to put pressure on Zagreb to comply with its commitments under the Dayton peace accords and to co-operate with the United Nations war crimes tribunal in The Hague.

The US government's decision to use financial pressure to force Croatia and other former Yugoslav states to comply with their obligations under the Dayton accords came as negotiating teams from both rump Yugoslavia and Bosnia-Hercegovina were in London seeking debt restructuring agreements from their commercial bank creditors.

The US insists on maintaining an "outer wall" of financial sanctions on Serbia and Montenegro to keep the pressure on President Slobodan Milosevic both to conform with Dayton and to exercise restraint in Kosovo, Serbia's largely ethnic-Albanian populated province.

The World Bank's move also came hours after General Tihomir Blaskic, a Bosnian Croat, became the highest-ranking suspect to appear before The Hague tribunal. He was charged with crimes against humanity for leading a campaign of violent "ethnic cleansing" of Bosnian Moslems in the Lasva valley area of central Bosnia in 1992-94.

The 36-year-old former career officer in the Yugoslav peoples Army (JNA) was a colonel commanding Bosnia Croat (HVO) militia forces when Bosnian Croat and Moslem forces, which had earlier co-operated against a common Bosnian Serb enemy, turned their guns on each other.

The bitter fighting between former allies was accompanied by the systematic razing of villages and the killing of hundreds of civilians by both sides, according to the indictment.

Mr Blaskic, who voluntarily surrendered to the tribunal in April 1996 and has since been under house arrest, pleaded not guilty to all charges. But his case provoked international outrage two years ago when Mr Franjo Tudjman, the Croatian President, promoted him to a senior rank in the regular Croatian army and decorated him for his war service.

Croatia, unlike bankrupt Serbia, no longer depends on loans from the World Bank and other international institutions because it now has access to international capital markets following last year's successful renegotiation of its London and Paris club debts. Washington's decision to block the next World Bank loan is therefore essentially symbolic. But Zagreb showed its continuing sensitivity to US pressure in April when days after a similar US threat Croatian police arrested their first indicted Croatian war-criminal and flew him to The Hague for trial.

The decision to block the World Bank loan comes three weeks before Zagreb is due to take back control of eastern Slavonia from UN forces, an event which is likely to displace thousands of Serb refugees from Krajina and Bosnia whose fate depends largely on their treatment by the Croatian authorities. But the fundamental factor behind the pressure now being exerted by the US government on Croatian, Moslem and Serb politicians is Washington's desire to create the conditions under which it will be able to withdraw US peacekeeping forces from Bosnia when or before their 18-month mandate ends in a year's time.

European and other governments with peacekeeping forces in Bosnia are reluctant to keep their own contingents there once the US forces leave, but fear that war could erupt again if the international force just pulled out.

Yugoslav proposals on debt fail to impress London Club

Yugoslavia and its London Club commercial bank creditors agreed yesterday to meet again next month after two days of inconclusive negotiations on restructuring the $2.4bn (£1.45bn) debt which Serbia and Montenegro jointly inherited from the former federal Yugoslavia, writes Anthony Robinson.

The Yugoslav delegation, led by Mr Danko Djunic, the deputy prime minister, asked for an 80 per cent debt reduction with a nine-month grace period and repayment over 25 years. This was accepted as a basis for negotiation. But the banks, led by Chase Manhattan, made clear that the proposal was far beyond what they were prepared to concede.

Bankers are now preparing to open negotiations with Bosnia-Hercegovina, which is expected to ask for 90 per cent debt relief and other lenient terms which reflect its status as a victim of the wars that divided former Yugoslavia. Concessions to Bosnia could have set a precedent for Serbia, which is virtually bankrupt after a four-year trade embargo imposed by the United Nations. But delay in implementing a package of quick economic reforms meant that talks with Serbia began before those with Bosnia, which open tomorrow.

Trial of Croatian Gen Tihomir Blaskic for war crimes began in The Hague yesterday Reuter

Ruling set to speed Spanish state sell-offs

By Tom Burns in Madrid

Market privatisations are due to be speeded up in Spain after a government ruling that gives the stock market regulator discretionary powers to let new companies be listed on Madrid's Bolsa.

The ruling appeared tailor-made to allow the partial flotation of CSI Corporación Siderúrgica, the last big steelmaker in the European Union still in state hands. It also makes it possible for recently formed companies such as the mobile phone operator Airtel to tap the markets.

Under the previous system, the economy ministry authorised new listings on a restrictive basis. Companies planning an initial public offering had to have shown profits and paid dividends in the two years prior to a listing, or during three of the previous five years.

The Comisión Nacional del Mercado de Valores (CNMV), the Madrid-based stock market regulator, will now have the power to waive these restrictions if it is satisfied with the earnings potential of contenders for the Bolsa.

According to the government's present plans, CSI, which was launched two years ago as a holding company for the rump of the domestic steel industry, will be privatised under a mixed formula involving an industrial buyer and a market placement.

Seven international groups have been invited to bid for a 30-35 per cent stake in the company. A further 10-15 per cent will be sold to Spanish industrial interests, and the remaining state-owned equity will be floated.

Officials said yesterday the changed rulings formed part of a wider deregulatory programme to increase the flexibility of the Bolsa under the aegis of the CNMV. The regulator, which is anxious to introduce more market-orientated criteria, is preparing new guidelines on minimum capitalisation and free-float requirements for listed companies.

Under Mr Juan Fernández-Armesto, who was appointed CNMV chairman in October by the new centre-right government, the commission has gained a reputation as a torch-bearer for market transparency and has taken an increasingly active regulatory role. Some analysts believe it will be eventually upgraded into a supervisory body for the entire financial system.

In the past two months Mr Fernández-Armesto has levied unprecedented fines on the state-controlled Endesa power group and on Banco Bilbao Vizcaya, which were linked to misleading information and insider dealing share purchases at the time of Endesa's takeover in October of two regional generators. On Monday he told parliament that a further 450 share transactions connected to the takeovers were under investigation.

Duma approves foreign role in two development projects

Russia eases investment in minerals

By John Thornhill in Moscow

Russia's parliament yesterday toned down its ideological objections to foreign investment in the country's natural resources industries by approving the development of seven mineral deposits under production-sharing legislation.

Foreign investors said this was a welcome move towards establishing a more liberal investment climate in Russia, but noted that it allowed direct foreign participation in only two of the projects, which include five oil fields, an iron ore deposit and a gold field.

The government estimated these projects could attract up to $16.5bn of investment over the next 20 years with foreign partners accounting for just $1bn of that sum.

Mr Stephen O'Sullivan, oil industry analyst at MC Securities, a London-based finance house, said the vote was a sign that the psychological tide was turning in the Communist-dominated Duma, lower house of parliament. However, much enabling legislation still needed to be passed before these projects could be realised.

"For a long time we have seen the Duma proposing bad laws and blocking good ones. But it now seems to be recognising the changed political climate and this latest vote is a definite step in the right direction," he said.

The list of seven fields will now be passed to the upper house for approval before it can be signed into law by President Boris Yeltsin.

Foreign oil companies have been pressing the Russian government for years to enact internationally recognisable legislation enshrining production-sharing agreements (PSAs), which would clarify the legal and fiscal environment in which they operate.

But both houses of parliament have resisted changing Russia's legislative climate to provide blanket approvals for foreign investments in their strategic industries and have watered down the relevant legislation, which still needs final approval.

"Parliament's view is still that PSAs should be used as a bespoke method for advancing particularly difficult projects which Russia cannot develop on its own," said Mr Peter Houlder, an oil industry consultant with the Moscow-based Centreinvest Group.

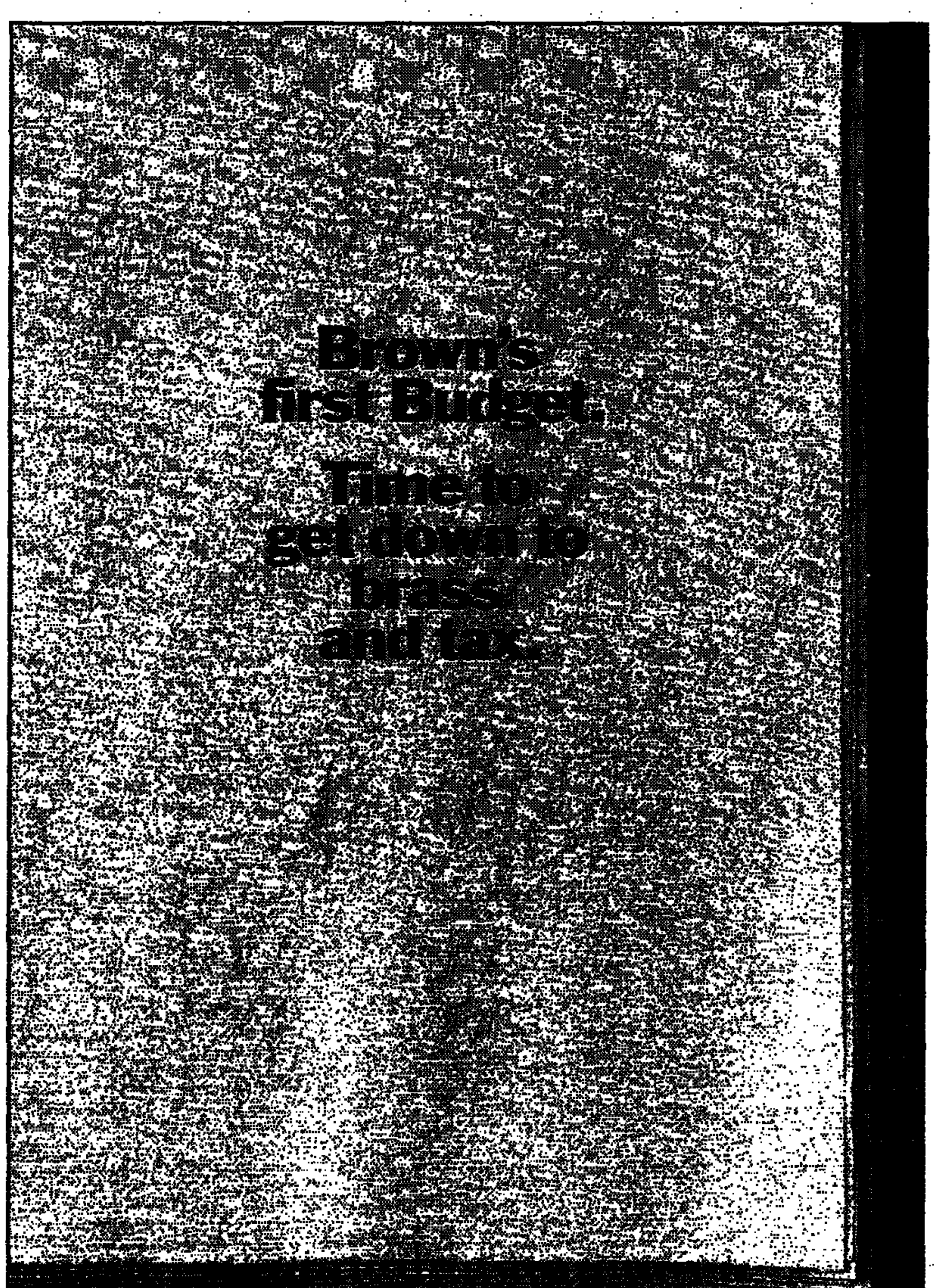
BHP Petroleum, a subsidiary of the Australian natural resources group, is the one foreign company which will participate in developing a listed oilfield. The Kuranakh gold field in the Siberian republic of Sakha (formerly Yakutia) will also be open for foreign investment.

BHP will work with Gazprom, the powerful gas company, to develop the complex Prirazlomnoye field, located 60km offshore in the Barents Sea in Russia's Arctic. Analysts forecast the field could eventually produce up to 120,000 barrels of oil a day.

Mr Richard Witt, chief representative of BHP in Russia, described parliament's vote as "more good news".

Several other foreign oil companies are spending millions of dollars on preparatory work in the hope of developing a series of giant oil fields, including the Timan-Pechora project in the Arctic and on Sakhalin island, in Russia's far east.

But they say they still need greater legislative clarity before committing the billions of dollars needed to develop these projects.



US to probe tobacco sales abroad

By Richard Tomkins in New York

A White House task force is to examine how US tobacco companies sell cigarettes abroad as part of its review of the $368.5bn settlement between the US tobacco industry and its foes.

The move comes amid concerns US cigarette makers will compensate for any loss of profits in the US by increasing efforts to market cigarettes overseas, particularly in emerging markets.

The three biggest tobacco companies in the US – Philip Morris, RJR Nabisco and Britain's BAT Industries – have large and fast-growing operations in other countries, but the settlement makes no provision for regulating their overseas activities.

Senator Ron Wyden of Oregon, a leading Congressional opponent of the tobacco industry, said: "I am going to fight very, very hard to make sure these multinational tobacco companies don't target kids in Bangladesh and Bangkok to pay Medicaid bills in Bend, Oregon, and Bangor, Maine."

Sen Wyden said the pact should set aside money for anti-smoking education efforts overseas, for the same advertising and marketing restrictions as those proposed for the US, and for prominent warning labels to appear on cigarette packs throughout the world.

President Clinton has asked Ms Donna Shalala, health and human services secretary, and Mr Bruce Reed, domestic policy adviser, to head a task force to examine the pact and complete a review within 30 days. The task force, drawn from several government agencies and a number of White House offices, has split into eight working groups to study the main issues raised by the pact.

One working group will study international issues, including the marketing of cigarettes abroad. Others will study the FDA's authority to regulate tobacco; budget issues, including how the $368.5bn should be spent; the effect of the agreement on the tobacco industry; workplace smoking; smoking cessation; litigation, liability and disclosure; and implementation of the agreement.

Wall Street analysts believe the controversial deal will be approved because such a diverse range of interests stand to benefit from it, including tobacco companies, the lawyers who will collect big fees, and the states that will receive payouts. But six to nine months could pass before it wins the necessary legislation from Congress. Sen Frank Lautenberg (Dem, New Jersey) said: "Lots of committees have an interest in this. I can't say when we would finish it. We usually can't even finish the morning prayer."

A Chilean policeman rides down the flooded main street of a village outside Santiago, searching for missing or trapped residents. Storms and torrential rains have killed 17 people and forced 51,000 others to flee their homes. Reuter

Exxon admission on premium fuel

Exxon Corp has agreed to run a series of advertisements that will take back past claims that using premium petrol will make cars run more efficiently, the Federal Trade Commission said yesterday, Reuter reports from New York.

The settlement is seen as a landmark case by the commission, marking the first time a top US oil company has admitted in public that most cars need only regular octane petrol.

"This is the first time a major US oil company is coming out and telling the truth about octane needs and telling consumers they don't need octane gas," said Mr Joel Winston, FTC assistant director of advertising practices.

According to the settlement, Exxon will begin running 15-second television advertisements in September in 18-major metropolitan markets, including New York City, Orlando, Florida, and Dallas, Texas.

The adverts, carrying the message that most cars will run properly on regular octane petrol will be aired for two to three week periods in September and December until it has been determined that 75 per cent of the television audience has been reached.

Argentina may hit 7.3% growth

By Ken Warn in Buenos Aires

Argentina's industrial production rose 6.2 per cent in May year-on-year, providing further evidence that the economy will grow at the fastest rate anywhere in Latin America this year.

The state statistics bureau, Indec, said that industrial output in the first five months of this year was 7.5 per cent up on the same period last year as the rapid advance out of recession continued.

Agricultural chemicals, the motor and tyre industries and cement production led the advance. Vehicle production in the first five months of this year was 40 per cent ahead of the same period of 1996.

Argentina's economy shrank 4.6 per cent in 1995, hit by the Tequila effect, the wave of financial instability which followed Mexico's surprise December 1994 devaluation. However, gross national product (GNP) bounced back 4.3 per cent last year.

Mr Miguel Angel Broda, who heads a Buenos Aires economic consultancy, is forecasting GNP growth of at least 7.3 per cent this year, "but it could easily be 8 per cent".

The economy ministry's official forecast is still 6 per cent, but officials privately admit growth could be higher.

Unlike the strong growth of 1991-94, which was fuelled by consumer demand, recovery is being propelled by high levels of foreign investment. The economy ministry is forecasting foreign direct investment of $8bn this year and for each subsequent year until 2000, against $5bn in 1996.

"There is a euphoria in investment and in mergers and acquisitions right now," said Mr Broda. "Buenos Aires law firms don't even have the time to produce all the contracts for the deals going through."

However, job insecurity and high unemployment mean growth is not yet generating the kind of feel-good factor which would assist the government ahead of this October's mid-term elections, in which half the seats in the lower house of Congress are being contested.

AMERICAS NEWS DIGEST

Projects boost for Ecuador

President Fabian Alarcón of Ecuador is pinning his hopes on an ambitious programme of 20 infrastructure projects to raise real growth in gross domestic product from an average of 2.1 per cent in 1995-96 to 3.3 per cent this year and nearer 5 per cent next year.

Mr Alarcón said this week that financing for the $2bn investment would come from local and international private investors and from repayable and non-repayable credit. The projects, including modernisation of the telecommunications sector, private sector concessions to build new hydro-electric plants and roads, expanding the cross country oil pipeline and building another one, have long been on the drawing board.

Analysts say it will not be easy to attract investment or credit for the projects. Private contractors will need clear guarantees that such long-term projects will remain economically viable and the rules of the game will not change.

"None of these measures will have an effect this year although there will be some improvements next year due to oil and telecommunications investment," said Mr Walter Spurrier,an economic analyst. He predicts real GDP growth will be nearer 2 per cent this year and 4 per cent next.

A bleak outlook for political stability and policy continuity will not reassure investors. Ecuadorians are due to elect a national assembly to reform the constitution next year. As well as uncertainty over the economic impact of constitutional reforms, relations between the assembly and congress are expected to be tense. Further elections for a new president and congress are scheduled for May 1998. *Justine Newsome, Quito*

Gates to set up library link

Mr Bill Gates and his wife Melinda have established a charitable foundation to provide internet links at public libraries throughout North America. Mr Gates, chairman and chief executive of Microsoft, and his wife, have donated $200m to form the Gates Library Foundation. Microsoft will match this amount by providing software and technical support services to the project.

The foundation's goal is to provide access to the internet through public libraries in low-income communities in the US and Canada, including training for library employees. About 45 per cent of US public libraries have internet access, but in most cases it is restricted to staff use.

Ms Patty Stonesifer, a former Microsoft executive, will head the foundation. She said she hoped to work with more than half of the approximately 17,000 libraries in the US and Canada over the next five years.

The foundation has already awarded a grant to the Technology Resource Institute in Seattle, Washington, to train library staff. *Louise Kehoe, San Francisco*

US accounting standards chief

Mr Ed Jenkins has been named chairman of the US's Financial Accounting Standards Board just six days before the retirement of the out-going chairman, Mr Dennis Beresford. The appointment, for a five-year term, ends what had become an embarrassing delay in finding someone willing to take on the job.

Overseas interest will focus on Mr Jenkins' attitude to the International Accounting Standards Committee and its programme to establish a set of accounting standards acceptable in all the world's leading stock markets. Mr Beresford had been an outspoken critic of the IASC. Mr Jenkins said the board "faced not only technical issues but critical ones related to international financial reporting in an increasingly global economy".

The IASC plans next year to present a set of core standards to IOSCO – the club of world stock market regulators – for endorsement. The project has the conditional support of the US Securities and Exchange Commission. Mr Jenkins, who recently retired as managing partner of the professional standards group for the worldwide practice of Arthur Andersen, is well known in the US as chairman of the the so-called Jenkins Committee on financial reporting.

"I wouldn't see him as a hawk. He would do a great deal to help the IASC project along while ensuring that the qality of financial reporting is enhanced," said Mr David Cairns, a former secretary-general of the IASC and editor of World Accounting Report. *Jim Kelly, London*

NEWS: ASIA-PACIFIC

Cambodia's rival PMs set poll date

By Ted Bardacke in Bangkok

Cambodia's two warring prime ministers have agreed to hold general elections next May, a move that will sharpen the focus of the country's political infighting and may help speed negotiations to resolve the fate of Pol Pot and other leaders of the disintegrating Khmer Rouge rebel group.

Elections were due sometime next year, but many analysts had doubted they would happen on time. Although the country lacks an election law and rules for political parties, voting will give Cambodia a peaceful chance to be led by a single person, seen as the only way to obtain a functioning administration.

One diplomat who was sceptical the country had the administrative capacity to hold the election said: "The two (prime ministers) can yell and scream at each other all they want now, but they are going to have to work together to pull it off."

First Prime Minister Norodom Ranariddh said the agreement came as he and Second Prime Minister Hun Sen discussed what to tell Mrs Madeleine Albright, US secretary of state, on her visit planned for Friday. US officials say Mrs Albright still may cancel her trip because of security concerns.

For the election to take place, the delicate situation surrounding Khmer Rouge leader Pol Pot has to be resolved. Many leaders of the rebel group, including the faction reportedly holding Pol Pot, want to join an electoral alliance led by Prince Ranariddh and may turn over the ageing leader in exchange for amnesty and a political role.

Mr Ranariddh and Mr Sen are supposed to govern the country jointly. But they rarely meet and both act as if they were each the leader of the opposition, which has brought much of the country's administration to a grinding halt.

"On all major issues it's the two prime ministers who decide things and since they don't talk to each other nothing happens," says an executive with a petroleum exploration company that is winding down in Cambodia. "Things won't move until there is one person in charge."

Most Cambodian politicians and officials, and international donors who have already pumped nearly $3bn into the country since a 1991 peace accord, are determined to see the election through. "We are just trying to hold things together until the election," says Mr Khieu Kanharith, a moderate from Mr Hun Sen's party. "If we can hold the election then we might be able to convince our leaders that there are other ways to prevent your opponent from hitting you besides hitting them first."

Japan flexes its financial muscle

By William Dawkins in Tokyo

Mr Ryutaro Hashimoto is one of a new generation of Japanese leaders unafraid, every now and again, to offend friends.

That is exactly what he did in an off-the-cuff gaffe after a speech at Columbia University in New York on Monday evening, when he issued a veiled threat to sell the Japanese public sector's vast holdings of US government bonds to put pressure on the US to co-operate in maintaining foreign exchange stability.

To be fair to a jet-lagged and tired Mr Hashimoto, neither he nor the finance ministry meant to be anything like that blunt. So they quickly clarified Mr Hashimoto's remarks, to stress that Japan is as keen as ever to continue co-operating with the US on currency matters in the usual diplomatic way. They were only just in time.

Fear of financial Armageddon from Tokyo contributed to the second largest fall in US share prices in a decade on Monday, though the market yesterday sobered up.

If carried out, Mr Hashimoto's apparent threat would drive down bond prices and the dollar, push up US interest rates and create general mayhem – all to the advantage of nobody in particular.

Even if this was a misunderstanding, it did contain a message, though more subtle than what was actually said. It is a reminder that the Japanese have begun to elect leaders who are slightly less in the US's shadow. It is also a reminder of Mr Hashimoto's frustration at the recent Group of Seven summit that his government's efforts at financial and economic deregulation "do not seem to be fully appreciated by his G7 peers," says a former senior finance ministry official.

Instead of praise at the Denver summit, Mr Hashimoto heard a homily from Mr Bill Clinton, the US president, about the need to stimulate domestic growth and concern over the tripling of Japan's current account surplus in May. "He might be happy to wear cowboy boots, but he is not happy to be lectured," adds Mr Jesper Koll, head of economic research at J.P. Morgan Securities Asia.

This is not the first time that Mr Hashimoto has threatened to dump US bonds. In reply to a question at Columbia about whether the Tokyo government would sell its US holdings if the dollar were to weaken, he said: "In the past, we were tempted to sell US Treasuries and buy gold when I was involved in car negotiations (as trade minister in 1995) and when the US was not interested in the dollar... when it was fluctuating wildly. So please co-operate with us to stabilise exchange rates to prevent us from being tempted to sell US Treasuries and buy gold."

It is easy to see why the markets were relatively relaxed over Mr Hashimoto's remarks. Japan's holdings of US Treasuries are so big that it would be among the first to lose from a decline in the dollar's value and US bonds prices. Of the Bank of Japan's $219bn foreign exchange reserves, the world's largest, 90 per cent are denominated in dollars, estimates J.P. Morgan. Japanese investors – both public and private sector – bought $45.4bn of US government bonds, 32.7 per cent of the total issued last calendar year, according to US treasury and Japanese finance ministry figures.

Clearly, Japan has no self-interest in dumping US government bonds. But while Mr Hashimoto's remark did not come out in the way intended, it did highlight that Japan is a very influential economic partner of the US, and one that cannot be taken for granted.

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Bihar's boss fights bid to oust him

By Khozem Merchant in New Delhi


Laloo Prasad Yadav outside his Patna home Reuter

The embattled Indian politician Mr Laloo Prasad Yadav is ignoring hints from the prime minister to spend more time with his family. The charismatic chief minister of Bihar has been charged with conspiracy in a $280m scam in which politicians allegedly siphoned off money intended for farmers' animal fodder. But he is refusing to step down. "I would rather hang than resign," he says.

Mr Yadav, president of the Janata Dal party of the prime minister, Mr I.K. Gujral – the largest member of the United Front coalition government – is the first sitting chief minister to be indicted.

He says he will fight the charges, but his determination to cling to his power base in the north-east state of Bihar is emerging as a test case of how effectively central government can tame recalcitrant regional assemblies run by a powerful "local raj".

Mr Yadav is also refusing to relinquish his Janata Dal presidency though even this foothold in national politics is slipping away. The party holds leadership elections next month and Mr Yadav is locked in a losing battle with Mr Sharad Yadav, a former friend. Either way, the party seems destined for an irrevocable split.

As central government troops stepped up their presence in the state capital of Patna yesterday, Delhi resisted imposing presidential rule. The removal of a regional Janata Dal government would be an embarrassment for Mr Gujral. "We all want him to go. But he is arrogant and does not listen," says a minister.

Mr Yadav's reversal of fortunes comes after months of cavalier political brinkmanship in which he has taunted and abused his adversaries. This week, as United Front ministers begged him to go, Mr Yadav asked: "Who cares for the UF leaders' opinion?"

Mr Yadav is from the backward castes and his advocacy of their cause has made him their hero in Bihar and beyond. His command over this large rural vote-bank in a political environment that favours the regional poor has made Mr Yadav powerful in Delhi. His boyish looks, mop hair and occasional clownish behaviour disguise a tough political mind.

Mr Yadav is a socialist but his activism has rarely translated into effective policies. His stewardship of Bihar – a poor, under-resourced, agrarian, state – has been inept. Bihar derives half its annual revenues from Delhi, and its per capita tax revenues are among the lowest in India.

The economic indictment remains overshadowed by Mr Yadav's remarkable ability to instil in his supporters a self-respect denied by their low caste. But their uncritical admiration may change as the full details of the animal fodder scandal emerge.

ASIA-PACIFIC NEWS DIGEST

Bid to soften laws in HK

Hong Kong legislators yesterday passed a law on political dissent and sedition designed to pre-empt harsher measures when the territory returns to Chinese sovereignty next week. The laws tone down colonial laws and amend original proposals of the outgoing administration. They remove the offences of subversion and secession and state that seditious statements in speeches or publications will not be against the law.

China had strongly criticised the move, accusing Britain of interfering in the affairs of the post-colonial government. Pro-Beijing politicians have signalled that the legislation may be scrapped by the provisional legislature, the Beijing-backed body that will replace the elected Legislative Council at the handover.

■ Prospects for agreement on a planned demonstration by Hong Kong's Democratic party group suffered a setback yesterday when the future administration criticised plans to stage the protest on the balcony of the Legislative Council hours after the handover. Failure to agree on arrangements for the demonstration could lead to a showdown between the incoming administration and pro-democracy forces during the transfer of sovereignty next week.

John Ridding, Hong Kong

Japanese spending declines

Japanese consumer spending continues to be depressed by the increase in sales tax from 3 per cent to 5 per cent in April, according to the latest retail data. Sales at department stores fell by just over 5 per cent in May compared with the same month last year, the Japan Department Stores Association said yesterday. That is the second monthly drop in a row, albeit far less steep than the 14 per cent decline in April. Higher priced goods and consumer durables were the worst hit, said the association.

William Dawkins, Tokyo

Malaysians back Philippines

Malaysia is now the second largest foreign investor in the Philippines, according to report from the government in Manila. The bulk of it went into equity investments and existing projects approved by the government.

United Engineers Malaysia accounted for M$180m (US$71.5m) of investment, which financed the building of the M$70m Manila-Cavite toll expressway, a government priority project. The build-operate-transfer project, a joint venture with the state-owned Public Estates Authority, is scheduled for completion in 1998. Malaysia was second in investment from Asian countries to Japan, which invested about M$290m in the first five months of this year – up 305 per cent.

Asif Huda, Kuala Lumpur

China sees end to national humiliation


HONG KONG
July 1 1997

Amid the ruins of the Yuan Ming Yuan, the former imperial garden in Beijing's north-western suburbs, people gather to recite poems, sing songs... and remember.

In this last week before the July 1 Hong Kong handover, this is a time for remembering. And historical reflection more often than not, it seems, recalls China's humiliation by foreigners.

The Yuan Ming Yuan, with its ruined structures, survives as a monument to indignities suffered by the imperial household at the hands of a western force sent to penalise the Manchus in 1900 for the Boxer uprising against foreigners.

Across China, the resumption of sovereignty over Hong Kong has spawned events which play on the theme of China's shame. In Nanjing, the local government has cast a 3.5-ton "Warning Bell" to remind citizens of the 1842 Treaty of Nanjing which ceded Hong Kong to Britain.

In Humen, a port on the Pearl River in southern China, officials burned 150kg of heroin, a reminder of the destruction of opium in 1839 which prompted British retaliation and China's loss of Hong Kong.

In Beijing, at the Museum of the Chinese Revolution on central Tiananmen square, an exhibition recalling the ups and downs of the Hong Kong story is drawing thousands of visitors a day.

The exhibition's title, "Wash Away a Century of Shame, Joyously Celebrate the Return of Hong Kong", sums up the message Chinese propagandists hope will be imprinted on peoples' memories: China may have been weak, but under communist rule has stood up.

Communist party historians have been enlisted to put their spin on the significance for China of Hong Kong's return.

Mr Qi Pengfei, vice-dean of the Communist party history department of the People's University in Beijing, says: "The loss of Hong Kong marked the beginning of Chinese humiliation by foreigners, but its return to the mainland means a thorough and complete end to the history of humiliation".

Mr Shi, a 92-year-old visitor to the Museum of the Chinese Revolution, appeared to have absorbed the message. "That part of history, with all the humiliation and misery, has left a deep impression," he said.

People's Daily, the Communist party newspaper, played on similar themes in the first of an eight-part series on the handover which began last week. Under a headline "Blood and Arteries Entwined Together", readers were told Hong Kong's return symbolised China's resurgence.

"The 100-odd years of British colonial occupation will prove to be a ripple in Hong Kong's long historic river," the paper says. "The permanent binding of Chinese blood and arteries is inevitable... With the return of the pearl of the South Sea, China's pulse will beat more vigorously."

Similar themes permeate other areas of the government-controlled press. Beijing Youth Daily in a five-part series provides a history lesson for readers under the title: "Recall the last 100 years, intensify our love of country, and instill the will to strengthen the nation."

China's legions of schoolchildren are not being neglected in the propaganda drive. At the Beijing 80th High School, one of the capital's élite schools, a banner greets students each day: "Remember 100 years of history. Stir up patriotic sentiments. Determine to build a strong nation."

Britain does not necessarily fare well in the lessons delivered to Chinese students. "Hong Kong is prosperous... due mainly to the hard work of Hong Kong Chinese themselves, the mainland backing it, and its geographical location," says one lesson at the 80th High School.

China's leaders have not hesitated to attach themselves to the "grand, historic moment" of Hong Kong's return. The Great Hall of the People in central Beijing has added a "Hong Kong room" to the other 31 devoted to China's provinces, regions and municipalities.

President Jiang Zemin supplied his own calligraphy carved on a screen at the room's entrance: "Carry out the principle of one country, two systems, and maintain the prosperity and stability of Hong Kong".

This slogan may not be poetic, but is certain to be a staple of China's official references to Hong Kong in the lead-up to July 1.

Tony Walker

Political uncertainties put skids under Israeli markets

By Judy Dempsey in Jerusalem

The Israeli stock market and the shekel fell sharply yesterday ahead of a no-confidence vote in Mr Benjamin Netanyahu, the prime minister, and an imminent cabinet reshuffle which could see a hardliner, Mr Ariel Sharon, in charge of the finance ministry.

During a day of political horsetrading, in which Mr Netanyahu secured the support of Mr Natan Sharansky, head of Yisrael Ba'Aliya, with a promise of Shk225m ($65m) to meet Russian immigrant demands, investors looked on aghast at what one trader called "a political circus". The Tel Aviv Mishtanim index fell 2.3 per cent yesterday while the shekel dropped 2 per cent this week to 3.508 to the dollar.

"A new round of political nominations, a much-feared nominee for the ministry of finance and a currency which looked like a roller-coaster, finally wore out investor's nerves," said Mr Shachar Gazit, a trader at Ilanot-Batucha Investments.

Mr Sharon, a former defence minister, was forced to resign in 1983 after a state inquiry found him indirectly responsible for the massacre of hundreds of Palestinians by Israeli-backed Lebanese Christian militia at two Beirut camps. Later he rejoined the government as housing minister where he expanded the Jewish settlements in the West Bank.

He was made infrastructure minister by Mr Netanyahu a year ago, promising loyalty to the prime minister. After last week's resignation of Mr Dan Meridor as finance minister, Mr Sharon is poised to replace him.

In days of intense bargaining with Mr Netanyahu, Mr Sharon said he wanted an expanded finance ministry that would include water and the state-run Israel Lands Authority which controls 92 per cent of the land. He also wants to join the inner cabinet where security policy is discussed, a move which would do little to convince Arab neighbours that the Netanyahu government is serious about peace.

Several Likud Knesset deputies were expected to abstain in last night's no confidence vote, including the Gesher faction headed by Mr David Levy, foreign minister. If Mr Netanyahu fails to secure 61 of the 120 Knesset votes, it would lead not only to his downfall but the dissolution of the Knesset and new elections – which Likud does not want.

Assuming Mr Netanyahu pulls through, analysts said those coalition parties which have stood by him will demand even more for their support in the future. Already the three religious parties in the coalition want the return to the cabinet of Mr Ya'acov Ne'eman, a former justice minister recently acquitted of charges of obstructing justice. Other parties are expected to make more financial demands on Mr Netanyahu following Mr Sharansky's success in obtaining funds for absorbing the 750,000 Russian immigrants.

Such a move bodes ill for fiscal policy, especially if it is placed in the hands of Mr Sharon. "I cannot see how fiscal policy will be tightened," said Mr Gad Haker from Ilanot Batucha Investments. Plans to cut the budget deficit from last year's 4 per cent of gross domestic product to 2.8 per cent this year could hardly be met under such pressures.

Egypt's diplomacy running into the sand

But it must still press on with its efforts to revive Mideast peace talks, **Mark Huband** writes

Intense Egyptian diplomatic efforts aimed at reviving Middle East peace talks have so far failed to break the deadlock between Palestinian and Israeli negotiators and have left Egypt exposed by the apparent weakness of its negotiating role.

A series of visits by Mr Osama Al-Baz, political adviser to Egypt's President Hosni Mubarak, brought Mr Benjamin Netanyahu, Israeli prime minister, to Egypt for a summit meeting with President Mubarak on May 27, resulting in a meeting of Palestinian and Israeli negotiators in Cairo on June 8.

Egypt arranged the June 8 meeting and offered suggestions as to the agenda. It put forward a broad series of ideas aimed at overcoming differences on the issue of Israeli settlement-building in Arab East Jerusalem.

Israel's construction of the Har Homa Jewish settlement led to suspension of direct Israeli-Palestinian negotiations. The deadlock since March 18 has raised doubts as to what benefits Egypt has accrued since it established diplomatic ties with Israel in 1980.

Mr Mohamed Sid Ahmed, a leading Egyptian political columnist and analyst of the peace process, said: "It's very important for Egypt to show it has a role. When Netanyahu comes here, he is proving Egypt has a role. What is needed is a commitment to stop the settlements. But Israel has not given anything to Egypt."

Egypt is now faced with the realisation that Israel is exploiting its willingness to mediate without being prepared to compromise on the Palestinian issue in the interests of their own bilateral ties. "Egypt can't pull out. It must get on with Israel somehow, and can't afford to have this time bomb as its immediate neighbour," said Mr Sid Ahmed.

Egypt's role in the peace process is essentially to encourage Palestinian involvement. The US role is to use its weight to influence Israel. Egypt has now sincerely taken on the role of mediator. But the crucial balancing effect of a US role to cajole the Israelis into moderation has not been forthcoming:

"The US role: I don't see it. They are the co-sponsor of this agreement. They have a moral responsibility," said a senior Arab official. "They are bound as much as the parties here. You can leave the parties to negotiate, and to agree among themselves.

"But what you can't do is allow violations of the terms of reference. Where I think the Americans are mistaken is that they haven't stood up for the principles of Madrid," he added.

He was referring to the 1991 conference at which the US and the former Soviet Union both agreed to act as co-sponsors of direct talks between the Arab and Israeli sides with the aim of bringing a lasting peace. "The only reason for the US to be a co-sponsor is because they can bring the Israelis along. What's the point of them being a co-sponsor if they're not going to?" the official asked.

Egypt's real influence over Israel, in spite of official ties for almost two decades, appears weak without overt US support. Meanwhile, Egyptian and US officials regard the present impasse as having at least one of its roots in the domestic political concerns of the Palestinian and Israeli leaderships. This view is also current among Palestinians.

"Har Homa will continue as a matter of interest on both sides, for the purposes of different tactics," said Mr Said Kamal, ambassador of the Palestinian Authority to the Arab League.

"It unites both Netanyahu's supporters and Arafat's. They can turn it on and turn it off. Arafat has made Har Homa a flag in his hand. If he accepted the settlements, his people would kill him. That's the big game between the two leaders.

"Palestinians trust the Egyptians to represent the Palestinian view fairly to the west," Mr Kamal said. "Without Egypt, we would not be at the negotiating table."

Egypt cannot accept a comprehensive Arab-Israeli settlement if it is one in which the Palestinians, under pressure from time, Israeli rubber bullets and the fading of the dream of statehood, are seen to capitulate.

The problem now is that nobody is at the negotiating table. The formula for a resumption of talks is increasingly indistinguishable from talks on the real issue of the final status of Jerusalem and the occupied territories.

That final settlement, if Mr Netanyahu's as yet officially unannounced but widely discussed plans are put forward, will give the Palestinians 40 per cent of the territory they now claim. It will deny them independent statehood, confining them to enclaves divided by four east-west roads patrolled by the Israeli army.

Effectively acquiescing, the US is remaining silent while Palestinian anger is already building towards a renewed uprising.

Israel is likely to insist on a new agenda for fast-track talks. The fear in Egypt is that the Palestinians would be forced to accept proposals out of desperation. Egypt would be forced to approve, because the diplomatic road would be at an end, and war is not an option.

The chairman of the Cairo stock exchange has offered his resignation after less than four months in the post, a leading Cairo financier has confirmed, writes Mark Huband.

Mr Abdel Ghani Gameh, a former banker, was appointed in March to oversee radical reform of both the Cairo and Alexandria stock exchanges, whose effective merger was his first act on being appointed.

Mr Gameh had been under pressure from financiers who were elected to the newly constituted board of directors in May. He had been criticised for failing to make decisions rapidly enough to suit the main players in Egypt's booming financial sector.

Israel's Prime Minister Benjamin Netanyahu with Egypt's envoy Osama El-Baz last month. Ideas for injecting impetus into the Mideast deadlock have yet to produce a result. AP

UN ENVIRONMENT SUMMIT

Best intentions disappear under paper mountain

By Michael Littlejohns, United Nations Correspondent in New York

If the United Nations special session on the environment winds up with more rhetoric than substantive results, as many fear, it could set a near-record in the volume of paper consumed at a five-day conference.

Thousands of pages of printed texts of the speeches of 60 heads of state or government and scores of lesser fry, as well as heaps of discarded documents, are destined for the UN recycling bins this weekend.

Non-governmental advocacy groups that deplore the denuding of the world's forests are doing their bit to help the paper industry. Yesterday, four long tables outside a UN conference room reserved for correspondents groaned under great piles of pamphlets and reports.

Prominent among them was a Friends of the Earth publication. It depicts President Bill Clinton and vice president Al Gore as ventriloquist's dummies under the control of big business. "Greenhouse Effect White House Defect" reads the headline.

According to Friends of the Earth, a poll of NGO and official participants in the special session that opened on Monday gave the US first place among "global pariahs", ahead of Nigeria, China and France.

France was chosen for blowing up the Greenpeace vessel Rainbow Warrior before the Rio Earth Summit of 1992 and "for blowing up Mururoa afterwards".

Denmark and Norway were declared "global paragons" along with a surprise choice: the Russian republic of Sakha – honoured for setting aside a quarter of its territory as protected areas.

Greenpeace may claim to lead the field in strident environmental advocacy. Mr Paul Hohnen, director of policy, called the 21st century "a disaster waiting to happen". Commitments made in Rio, which the UN session was convened to review, had made no discernible impact, he complained.

Sustainable development is a major theme of the conference, which Mr Clinton is to address tomorrow. The US and other industrialised states are under sharp attack by NGOs and some third world governments for failing to honour their Rio pledges of greatly increased financial and other aid to help the developing world meet UN environmental goals.

NEWS: WORLD TRADE

New pioneers plough ahead in Mexico

Nafta's freer trade is promising fruitful returns to farm investors, Leslie Crawford writes

NAFTA

A small group of US pioneers, driven by the North American Free Trade Agreement, is discovering the rewards and pitfalls of farming in Mexico.

They include raspberry growers on the shores of Lake Chapala in the western state of Jalisco, avocado exporters in the central state of Michoacán, Californian wineries and organic farm producers in the border state of Baja California, and a growing number of fruit and vegetable packers and operators of freezing plants located throughout Mexico.

The investment outlays are modest but significant in a country which forbade the sale, rent or mortgaging of communal farmland until 1992. Constitutional reforms that year guaranteed property rights and gave farmland a marketable value for the first time since the 1910-17 Revolution. The reforms became a catalyst for creating a modern agricultural sector alongside millions of subsistence farmers, who still work tiny plots of communal land and form the backbone of Mexico's backward rural economy.

Foreigners are still prohibited from owning farmland in Mexico. But the gradual liberalisation of farm trade under Nafta is encouraging US investors to examine the country's agricultural potential for the first time since the US annexed California, Texas, Arizona and New Mexico – half of Mexico's territory – 150 years ago.

Mexican avocados, for example, have been banned in the US for health reasons since 1914, but this has not deterred Mission Produce of California from becoming the largest exporter of fresh and processed avocados in Mexico. Mission Produce first ventured south of the border 12 years ago, when a poor avocado crop in the US led it to enlist Mexican growers to meet export commitments to Japan. Last year, the Californian company had 500 avocado growers under contract in Michoacán, who delivered a 20,000-tonne harvest, an amount which almost equalled Mission's crop in California. The entire Mexican harvest was exported to Europe and Japan.

In November, the US is due partly to lift its ban on Mexican avocados. Even though only 19 states in the north-east of the US will be allowed to import them, then only during certain months of the year, Mission Produce is well placed to take advantage of this opening.

"We would be willing to invest more in Mexico," says Mr Jim Donovan, head of Mission's international operations in Oxnard, California, "but Mexico's foreign investment laws are too restrictive. Foreigners are obliged to lease farmland, or be a minority partner in an agricultural venture, and this arrangement does not suit us."

One company experimenting in Mexico with a mix of leased farmland and contract farmers is Berrymex, an associate of Driscoll Berries of California, the largest berry producer in the world.

Driscoll had three options to secure a year-round supply of berries, says Mr Miles Reiter of Berrymex. It could have built protective tunnels for winter production in California, air-freighted berries from southern Chile, or started production on the shores of Lake Chapala in Jalisco, close enough to California to allow delivery by truck, but with a mild enough climate for counter-seasonal production.

The protection of intellectual property rights, reinforced under Nafta, were critical to Berrymex's decision to locate in Mexico. "We have developed and patented our own plant varieties, and would not have risked bringing them to Mexico unless Nafta protected our patents," Mr Reiter says.

Along with the raspberry seedlings came another asset rarely documented in agricultural trade statistics: immigrant Mexican farm workers, skilled in the delicate art of berry-growing, who volunteered for the Berrymex start-up in Jalisco out of a desire to return home.

"I have job responsibilities here I would never be given in California," says Mr Pablo Miranda, a foreman in charge of 40 farmhands at Berrymex's largest farm in Jalisco. Before taking the job last November, he had spent six months of every year berry-picking in California. "The separation was putting a terrible strain on my family," he said. "Wages are lower here, but then I do not have the cost of running two homes. Mexicans do all the agricultural work in California, so it is natural we should rely on them here too," says Mr John Weisz, Berrymex's manager in Mexico.

There have been frustrations, as with many new ventures: an unexpected frost, difficulties in sourcing water, delays at customs and threatened strikes at harvest time. But Berrymex has ploughed ahead, and has expanded acreage under cultivation. "Twenty-five years from now," Mr Weisz predicts, "it is Mexico which will be feeding North America, not California."

● *This is the fourth of a series on Nafta in the run-up to the Clinton administration's review of the trade pact, to go before Congress on July 1. Other articles appeared on June 6, 11 and 18.*

US-Mexico agricultural exports

1996 ($m)	US to Mexico	Mexico to US
Fresh and processed fruit and nuts, seed and fresh vegetables	335	2,245
Animal meat	565	9
Cereals	1,959	6
Soy beans	897	0
Coffee, tea, spices	7	559
Other	360	295
Total	4,100	[illegible]

Source: Mexican trade and industry ministry

Grape harvesting in Mexico: The Nafta pact is allowing US producers to take modest but significant rewards *Panos Pictures*

Mekong river hydro-electric station offers foreign investors a new kind of opportunity

China unveils plan for power exports

By James Harding in Kunming and Ted Bardacke in Bangkok

China is planning to build a Yn7.8bn ($940m) hydroelectric plant to export electricity to Thailand, the first Chinese power project designed to serve a foreign market.

The proposed hydropower station on the Mekong river in the south-west province of Yunnan would offer a new kind of opportunity to foreign investors in Chinese infrastructure projects.

Government officials in Yunnan are planning to offer the project as a build-operate-transfer contract to draw foreign capital, pending approval from the central government in Beijing.

The 1500MW plant planned for Jinghong, approximately 400km from the city of Chiang Rai in northern Thailand, depends on the Thai demand for imported power. Laos, Burma and Cambodia also want to sell electricity to Thailand, where projections for power demand have been reduced because of economic slowdown.

Independent power producers in Thailand have been able to offer electricity at more competitive rates to the state-owned Electricity Generating Authority of Thailand than have foreign hydroelectric projects, although the Thais are still willing to buy from neighbours to help diversify electricity sources.

The regional competition will put pressure on the Chinese authorities to offer favourable financing. Officials warn that the approval process is also likely to take time as "this is the first power plant of its kind in China, so we may encounter difficulties in discussions with authorities...but it will definitely go ahead." The pricing and financing structure may change in the light of these discussions.

MDX, the Thai infrastructure company which is constructing a 210MW hydropower station in Laos to sell electricity to Thailand beginning next year, has completed the feasibility study for the Jinghong project in conjunction with the Yunnan authorities and its findings will be published in August. MDX is expected to bid for the contract when the Chinese authorities open it to tender.

China would be unlikely to need the plant to meet local demand as Yunnan is criss-crossed by rivers and awash with hydroelectric power, but could consider building the power station to meet electricity needs elsewhere in the country. The province already sells a small portion of its power to Guangdong, the province that neighbours Hong Kong.

Officials in Yunnan, which has a relatively poor record of foreign investment by Chinese standards, are determined to attract foreign capital. "For the Thais it is good because they will get cheap electricity and for the Chinese the project will be good for the local economy," says one official.

Bangladesh in gas field talks with Unocal

By Kasra Naji in Dhaka

Unocal of the US is negotiating with the government of Bangladesh over proposals to develop an important gas field in the south of the country.

Also part of the negotiations are proposals to establish an integrated network of power plants, pipelines, and power lines in the region at the cost of nearly $550m.

A Unocal representative said that about $100m would be invested in development of Shahbazpour Field and $450m in the integrated project. The government statement said the two sides had agreed in principle to implement the Western Region integrated project in two phases.

In the first phase, Unocal has indicated its interest in constructing a gas pipeline from the Shahbazpour field to the cities of Bhola, Barisal and Khulna, a 20MW gas-fired power plant at Bhola, a 125MW simple-cycle power plant at Barisal, and a 132kv single circuit transmission line from Barisal to Khulna.

Unocal's proposal in the south hinges on the company getting the rights to develop the lucrative Shahbazpour field which has estimated recoverable reserves of at least 0.3 trillion (million million) cubic feet of gas.

Rights to the field were initially open to international bidding but a letter of intent signed last December with the government gave the company a head-start it had been looking for.

Unocal has secured the right to assess the field and set out a proposal which will then be offered to other companies to match or improve.

Industry sources say the new round of negotiations are being watched by other international oil and gas companies, which have been angered by the apparent preferential treatment given to Unocal by the government.

Separately, Unocal has been pre-qualified to establish a 300MW power plant in Haripour near the capital. Detailed proposals are expected to be submitted by the end of this week. Unocal has also just been pre-qualified to bid for another 100MW power plant at Baghbari in the north-west of Bangladesh.

Late last year, Unocal bought a 50 per cent share in the interests of another American oil company, Occidental, in the north of the country.

Occidental had signed a production sharing contract with the government to develop the north-eastern Sylhet region for gas, and supply the government with 100m cu ft of gas from Jalalabad field from the middle of next year.

Vietnam's tough currency line hits foreign investor confidence

By Jeremy Grant in Ho Chi Minh City

Foreign investor confidence in Vietnam suffered a blow yesterday when a prominent brewery involving Heineken of the Netherlands failed to repay part of a bank loan because the central bank had not allowed it to buy the necessary dollars.

The case is causing alarm as it comes in the wake of recent threats by the central bank to clamp down on the right to convert local currency earnings into hard currency.

That is crucial in a country where the local currency, the dong, is non-convertible and where many investors need to meet hard currency obligations to continue operating.

The central bank's apparent hard line towards Vietnam Brewery – a joint venture between Heineken, Fraser & Neave of Singapore and a local partner – is likely to dent confidence at other projects run by other investors that have come to expect convertibility.

Vietnam Brewery applied weeks ago to the central bank for the right to convert dong earnings from sales of its top-selling Tiger and Heineken brands into dollars. The company needed them to repay a $5m tranche of a $32m foreign bank loan, which was due yesterday.

The application was seen by many as a test case. But bankers close to the deal said the central bank had not responded, forcing the brewery to delay payment. Vietnam Brewery declined to comment.

Bankers say the recent central bank clampdown reflects official nervousness over Vietnam's fragile foreign exchange reserves.

Analysts said although it was clearly an attempt to encourage foreign investors to export, it failed to take account of investors that came to Vietnam solely to sell to the local market, such as brewers and other consumer goods manufacturers.

Vietnam's long-term goal "is to be self-sufficient in foreign exchange," said one foreign lawyer. "But scaring every conceivable participant in the financial system is not a good way to go about it. Letting a blue-chip joint venture default on a loan is not a good way to ensure forex will actually be available."

Official statistics show that foreign investment pledges in the first five months of this year fell 19 per cent from the same period last year.

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Bulgaria stages CD crackdown as music piracy concern grows

By Alice Rawsthorn

Bulgarian police have raided the country's largest compact disc factory as part of a crackdown against music piracy.

The raid, in which thousands of compact discs, software files and printing equipment were seized, comes amid growing concern within the international music industry about piracy in Bulgaria.

After vigorous protests by record companies, the Bulgarian authorities have stepped up efforts to curb piracy. Earlier this month, they took the unprecedented step of prosecuting an industrialist for allegedly breaching copyright law by supplying counterfeit compact discs, but the case collapsed.

The International Federation of the Phonographic Industry (IFPI), which represents the world's record companies in political lobbying, welcomed the news of the raid as a sign that, despite the failure of the court case, the Bulgarians were continuing to try to stamp out music piracy.

The factory involved in the raid is based in Botevgrad and owned by Unison, a private company. It can produce up to 15m compact discs a year – more than a third of the country's production capacity.

Bulgaria, which has relatively lax copyright laws, is one of the world's largest sources of pirated compact discs in recent years. The IFPI estimates that 15m unauthorised compact discs were produced there last year, one in eight of all those sold worldwide.

Many of the illegal compact discs made in Bulgaria are exported to Russia and other former Soviet republics, before being sold in other European countries. However, pirate compact discs made in Bulgaria have also appeared in North America and Australia.

Piracy has long been a threat to the global music industry, but the problem has worsened in recent years, as the cost of compact disc production equipment has fallen. At the same time, a worldwide glut of compact disc manufacturing capacity has intensified the financial pressure on previously legitimate production plants, some of which have started to distribute unauthorised products.

WORLD TRADE NEWS DIGEST

EU financial services offer

The European Union yesterday approved proposals to open its financial services market further to foreign competition. The proposals will be tabled at the World Trade Organisation by July 1.

Sir Leon Brittan, EU trade commissioner, said the offer went beyond existing commitments and contained a number of important improvements. WTO talks on liberalising banking, insurance and securities services worldwide resumed in April after nearly collapsing in 1995 when the US refused to join a multilateral deal, now in force on an interim basis.

The present talks, with over 50 participants including the US, are due to end by December 12. The Quad Group of the US, EU, Japan and Canada have pledged to submit improved offers by July 14.

Sir Leon said the new EU offer confirmed non-discriminatory foreign access to the European financial services market, including the ability of EU residents to buy banking and investment services abroad.

It also eliminated 12 current restrictions and limited the scope of a similar number of others. Among the curbs the EU is offering to scrap are the economic needs test in Austria's banking sector and the requirement to incorporate in Belgium to be able to deal in securities there. *Frances Williams, Geneva*

Airline co-operation pact

Scandinavian Airlines System (SAS) and South African Airways (SAA) yesterday unveiled a co-operation agreement, increasing SAA's ties with the six-airline Star Alliance. The alliance, announced in May, groups SAS, Lufthansa of Germany, United Airlines of the US, Air Canada, Thai Airways and Varig Brazilian Airlines. Lufthansa, which already has a co-operation agreement with SAA, has said it sees the South African carrier as an eventual member.

The SAS-SAA pact allows code-sharing on flights between Copenhagen and South Africa. Code-sharing allows airlines to sell seats on each other's flights. The two airlines will begin with two flights a week on an SAA Boeing 747. The two carriers plan eventually to increase the service to daily flights from Copenhagen to South Africa. *Michael Skapinker, Aerospace Correspondent*

US computer export move

The US Senate is expected to consider an amendment to a bill which would strengthen US export licensing requirements on high-performance computers. The amendment, passed by the House last week, was a big defeat for the US high-technology industry and its efforts to ease export controls. The bill requires companies to seek individual export licences for the sale of high-performance computers. It applies to sales to China, Russia, Israel, Pakistan and India.

This is a partial rollback of controls instituted by the Clinton administration in 1995 and follows the sale of a supercomputer to Russia. Officials later determined that the equipment was being used in Russia's nuclear weapons programme. Congress is even more concerned about supercomputer sales to China and their possible use by the military. Industry lobbyists will try to head off the legislation by arguing that a decision of such a technical nature should not be made by Congress. *Nancy Dunne, Washington*

■ Pilkington of the UK is to build a £20m ($33m) vehicle glass toughening plant in Poland. The plant, sited next to a recently completed float glass line, is due for completion by mid-1998. Pilkington makes laminated windscreens for Daewoo-FSO, Fiat, General Motors and Ford, which have factories in Poland. The investment brings Pilkington's investment in Poland to about £155m. *Foreign Staff*

MOST BANKS SPEND A GREAT DEAL OF TIME WORRYING ABOUT MANAGING RISK.

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Electronic Data Systems already has 50% of government IT market

EDS wins air traffic control deal

By George Parker, Political Correspondent

Electronic Data Systems, the US computer services company, will tomorrow secure the first private finance initiative contract to be awarded under the Labour government, in a £53m ($87.5m) deal to revolutionise air traffic control over the North Atlantic.

The company will install a system designed to cut travel times, improve safety and allow for an annual growth in transatlantic traffic of between 4 per cent and 6 per cent.

The contract represents a boost to EDS, which the UK Treasury admitted earlier this year has won "over 50 per cent of the $600m government market for information technology services".

EDS has been chosen by the Civil Aviation Authority to introduce a new air traffic control system at the Oceanic control centre in Prestwick, Scotland.

The new system will allow aircraft positions to be tracked by satellite, replacing the current system where positions are plotted by voice communication with the pilot.

The precise system will allow controllers to halve the separation distances between aircraft, which are currently kept apart by 2000 feet vertically, and one degree longitude horizontally.

"This new system will allow air space to be used more efficiently," said Mr David Courtley, managing director of the EDS government group.

"Aircraft will be able to fly more efficient routes and get better fuel efficiency, and that should mean faster travelling times and lower fuel costs."

The CAA commissioned the new system to handle the rapid growth in transatlantic travel, with total flights expected to rise from 245,000 in 1995 to 365,000 in 2009. Under the terms of the PFI deal – the first in the air traffic control sector – EDS will be paid according to the number of flights processed by the Oceanic control centre.

These will steadily increase as more aircraft are fitted with the technology needed to allow controllers to use satellite tracking techniques.

EDS already has contracts for the Inland Revenue, the Department of Social Security, the Ministry of Defence and the Driver and Vehicle Licensing Authority.

Its success in winning such contracts has raised concerns among MPs who claim the company was acquiring a near-monopoly in the sensitive area of government information systems.

The air traffic control contract – negotiated under the previous Conservative administration – will improve the efficiency of the National Air Traffic service, a subsidiary of the CAA, whose future became a significant issue at the general election.

Although Labour said during the campaign for the general election that it might adopt the Conservative plan to sell the service, Mr John Prescott, the deputy prime minister, is now thought to be reconsidering its future in the public sector.

Minister threatens import curbs on EU beef

By Neil Buckley in Luxembourg

Mr Jack Cunningham, UK agriculture minister, warned his European Union counterparts yesterday that he would impose import controls on European beef unless they introduced safeguards against the spread of BSE or "mad cow disease".

Mr Cunningham wants other EU countries to exclude from the human and animal food chain the parts of animals most at risk of carrying BSE, as already happens in the UK.

He told EU agriculture ministers in Luxembourg that, if they had not taken action by their next monthly meeting on July 22, he would introduce unilateral controls requiring the brain and spinal cord of beef carcasses to be removed before meat was brought into Britain.

His demand reflects concern, supported by European Commission reports, that levels of BSE infection in mainland Europe may be much higher than official figures suggest, and that controls are inadequate.

European commissioners Mr Franz Fischler (agriculture) and Mrs Emma Bonino (consumer protection) last week reissued proposals for the head and spinal cord of cattle, sheep and goats over 12 months old to be kept out of the food chain.

Sheep and goats were included after scientific evidence suggested BSE, thought to have originated as scrapie in sheep, could be retransmitted to other ruminant animals.

"Other EU states can't simply cop out of scientific advice when it suits them," Mr Cunningham said.

But EU ministers rejected the proposals last year, and show little sign of changing their stance. Countries including Belgium and Germany argued a blanket approach across the EU was unfair because some countries had little or no BSE.

Mr Fischler insists that adopting different approaches for different states would destroy the single market for beef.

There were warnings yesterday that Mr Cunningham's stance might backfire. Mr Ivan Yates, Irish agriculture minister, suggested it risked souring the atmosphere in discussions on lifting the EU ban on British beef exports.

Irish republicans debate values of bullet and ballot

In spite of new initiative, IRA ceasefire is still in the balance, Jimmy Burns reports

The word in the republican strongholds of West Belfast is that several "volunteers" have not been seen for days.

Some Irish Republican Army operatives are continuing – as they have always done – to plot and plan their next military contingency. Others are engaged behind the scenes in one of the most significant internal debates in the republican movement since the run-up to the ceasefire of August 1994.

At issue is whether the movement abandons its twin-track strategy of "Armalite and ballot box" or whether it uses the continuing terrorism of the IRA in the hope of making further political gains.

British and Irish officials hope that their agreement on "decommissioning" paramilitary arms has robbed Sinn Féin, the IRA's political wing, of its last excuse not to renounce violence.

However, despite the optimism generated by the announcement made by Mr John Bruton, the outgoing Irish prime minister, in New York on Monday, an IRA ceasefire is far from being certain. A ceasefire is the precondition for Sinn Féin being brought into full political talks about the future of Northern Ireland.

Republican sources say hardline elements of the IRA remain deeply suspicious of the peace process. Political talks on offer revolve not about the prospect of a united Ireland – for which the "volunteers" have been fighting for all these years – but a devolved Northern Ireland government inside the UK.

Within the IRA there are those still hoping that the summer season of traditional marches by "loyalists" will disintegrate into sectarian violence, with the government and security forces intervening on behalf of the anti-republican, pro-British community.

"This would then show that the British state cannot hold and that the only solution remains total withdrawal," said one republican.

Nevertheless, the big effort which London, Dublin, and Washington are putting into the Northern Ireland issue is aimed at exploiting the growing pressures on Sinn Féin to enter the political fray and leave terrorism behind.

The killing of the two policemen ten days ago by an IRA unit provoked not just wide condemnation on both sides of the Atlantic but more discreet protests from within the republican movement itself.

A symptom of this disgruntlement was an unprecedented hard-hitting editorial in Andersontown News, a Belfast newspaper traditionally sympathetic to the republican cause.

"It is no longer good enough for the leaders of Sinn Féin to stick to the tired old mantra of refusing to indulge in the politics of condemnation . . . if a thing is wrong, it is wrong, and deserves to be branded as such," it stated.

As the editorial pointed out, within the tortured rationale of Northern Ireland society, many Sinn Féin supporters have for years excused IRA violence within a recognisable political context. But suddenly they were confronted with an IRA action which, for many nationalists who voted for Sinn Féin in the recent British and Irish elections, was tantamount to a betrayal of their vote for peace.

"You know what I did this morning after the killings? I went along to my local Sinn Féin office and told them: you do this again and you've lost my vote," said Harry, a lifelong republican supporter who nevertheless refused to give his full name for fear of reprisals.

Prospects for an IRA ceasefire rest partly on the British government's ability to allay the fear of anti-republican "unionists" that there cannot be a genuine IRA ceasefire while the organisation is allowed to hang on to its weapons.

But the real hurdle yet to be overcome is within the republican movement itself as it struggles to accept that military and political victory may no longer be achievable and that only compromise is on the table.

"It's proving difficult to contemplate that the years of struggle may end not with a bang but with a whimper," said one republican.

PA News

David Trimble (right), leader of the Ulster Unionist Party, the largest pro-British party in Northern Ireland, and his deputy John Taylor, arrive at 10 Downing Street yesterday for talks with premier Tony Blair about "decommissioning" paramilitary weapons. "We have to have procedures that actually bite," said Mr Trimble after giving a cautious welcome to proposals from the UK and Irish governments

UK NEWS DIGEST

Kvaerner rival faces court

Confidential internal documents about Davy International that were secretly passed to VAI, its Austrian engineering rival, were later hidden and shredded by VAI in defiance of a court order, it was alleged in the High Court in London yesterday. Davy is the UK metals processing offshoot of Kvaerner.

Although it was VAI employees who hid or destroyed the papers, the company itself knew what was going on and was also responsible, lawyers for Davy claimed. The documents referred to nine projects in which Davy was involved, and all were "very sensitive and highly confidential", the court heard.

Davy accuses the company and some of its employees of contempt of court in not complying with an order made in May last year intended to allow Davy to recover the documents. VAI does not dispute that Davy papers were obtained by staff, some of whom had previously worked for the rival company. However, it denied that it approved the actions of its staff. *John Mason, London*

■ PENSIONS MIS-SELLING

Government hits at companies

The government yesterday branded pensions mis-selling "one of the worst scandals in financial services this century" as it lambasted two companies – Legal & General and Sedgwick – for failing to understand the urgency of the problem.

Ms Helen Liddell, economic secretary to the Treasury, also attacked the managements of 22 other pension providers saying she would take action against them if they failed to make substantial progress soon. Justifying her get-tough approach, she said: "It is appalling that a government minister is having to do the job the management of these companies should be doing."

L & G said it was "astonished" by the criticism. Sedgwick said: "We remain committed to completing the review within the timetable agreed with our regulators." *Christopher Brown-Humes, London*

■ US COMPANY VENTURE

North-east base for call centre

The Avco Trust offshoot of Textron of the US is to set up a customer services centre, including call centre and back office activities, in the north-east England city of Sunderland.

Avco specialises in providing personal finance products and loans and financing credit sale transactions, and the new centre will support Avco's growing activities in Europe. The British government is giving a £800,000 ($1.3m) regional selective assistance grant towards the project, which is costing £2.9m to equip. Avco also considered locations in the Republic of Ireland and on the European mainland. *Chris Tighe, Newcastle upon Tyne*

■ CANTRADE ALLEGATIONS

Three in committal proceedings

Committal proceedings begin in Jersey's magistrates' court today against the three men alleged to be at the centre of a $27m fraud involving the UBS subsidiary Cantrade Private Bank.

Between them, currency trader Mr Robert Young, former Touche Ross partner Mr Alfred Watkins and suspended Cantrade manager Mr Peter Stoneman face 98 fraud charges. Cantrade itself faces 33 fraud charges relating to the alleged losses.

Witnesses will fly in from Australia, the US, Canada and Switzerland as well as the UK, including some of the investors who claim to have lost $26.7m in the deals effected by Mr Young through Cantrade. Mr Watkins is alleged to have audited Mr Young's trading figures. Investors said to represent a big proportion of the $26.7m have already begun compensation talks with the UBS subsidiary, which is offering to repay the investors' trading losses in full, together with interest, while strongly denying any legal liability. *Philip Jeune, Jersey*

■ TELECOMMUNICATIONS

$44m deal for National Grid arm

Energis, the telecommunications arm of the National Grid, has won a contract with the Boots the Chemist pharmacy chain valued at £27m ($44.56m) over five years. Boots is developing some 60 stores a year including pilots in the Netherlands and Thailand.

Energis already has some 15,000 business customers including British Gas, Reuters, the Mirror Group and ICL Pathway, the consortium building a communications network for the Post Office. The Boots contract covers the development of an advanced data transmission network linking 1,300 locations. *Alan Cane, London*

■ RIOTS ANALYSIS

Action urged to tackle violence

Large numbers of jobless young men, weak social controls, inconsistent policing, and short-term government aid programmes which may actually have made things worse, lay behind a spate of riots in England and Wales in the early 1990s, a study from the London School of Economics concluded yesterday.

Action across government departments is needed, it says, to tackle school failure, to find jobs for the estates, to provide training, specialist help for parents of "out-of-control" children, and to reduce huge concentrations of children and young men on estates on to which vulnerable families are "dumped". *Nicholas Timmins, London*

Euro warning by central bank head

By Robert Chote, Economics Editor

Mr Eddie George, the governor of the Bank of England, the UK central bank, yesterday gave his most explicit warning yet that Europe's unemployment problem may make it dangerous to go ahead with plans for a single currency.

In the annual Mais lecture, Mr George said he was "frankly nervous at the prospect of introducing the euro at a time of very high and very different rates of unemployment across Europe".

The governor warned that high unemployment across Europe might undermine popular support for efforts to keep inflation and public borrowing under control. Pointing implicitly at countries such as France, he said there were "perhaps some suggestions that this may be beginning to happen".

Mr George conceded that unemployment in Europe – which averages more than one in 10 of the workforce – was probably aggravated by the "heroic attempts being made to meet the fiscal criteria according to the Maastricht criteria in a context of cyclical weakness".

"My concern is that the persistence of these wholly unacceptable levels of unemployment across Europe, and the very real difficulty of implementing appropriate supply side reforms, could begin to undermine public support for macroeconomic stability in some countries – even though significant relaxation on this front would provide at best only short-term relief."

Digital TV licences awarded

By Raymond Snoddy in London

Digital Television Network, the loser in the battle for digital terrestrial television licences, was last night considering an appeal against the decision of the Independent Television Commission. DTN is an offshoot of NTL, the US-owned cable and broadcasting services group.

As widely expected, the ITC yesterday awarded the three main commercial "multiplexes", or blocks of digital frequencies, to British Digital Broadcasting. The BDB consortium now consists of Carlton Communications and Granada Group, owners of the two largest companies in the ITV commercial terrestrial network. At the ITC's insistence, British Sky Broadcasting has agreed to stand down from equity participation in the venture but will remain its most important programme supplier. BSkyB is the satellite network in which Mr Rupert Murdoch's media empire has the biggest stake.

DTN will take comfort from the views of Mr Don Cruickshank, director general of the Office of Telecommunications (Oftel). Mr Cruickshank revealed that Oftel advised the ITC last month that "the participation of BSkyB either as a consortium member or as a long-term supplier of certain pay TV services, in particular sports programming, raised substantial competition concerns in the pay TV network and conditional access markets."

DTN will now review its options, including complaints to the Office of Fair Trading and Oftel in the UK and to the European Commission.

Digital terrestrial television (DTT) enables viewers to receive about 30 new channels of digital television broadcasting from conventional transmitters to ordinary domestic aerials. Satellite dishes or cable connections are not needed although a set-top decoder costing around £400 ($660) at retail – before any subsidy – is needed.

The UK looks likely to be the first country to launch DTT services – probably by September 1998 – though Sweden is also pursuing DTT. The ITC noted yesterday that the BDB programme proposals, including four new subscription channels from the BBC, were "intended to appeal to broad audiences". The ITC had, however, on balance been more attracted by DTN's innovative programme plans but was worried about their revenue-earning potential.

Mr Michael Green, chairman of Carlton and of BDB, said last night: "You will be able to receive extra free and subscription channels through your existing aerial and television. No dish. No cable."

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Golden offer will be assessed in High Court

Trade and industry department brands Dutch-based company's UK unit a pyramid scheme

Mr Daniel Deubelbeiss could never be accused of thinking small. Aged 32, the self-styled Swiss-Israeli media magnate claims Dutch-based Vanilla Services, one of his many companies, is on the brink of a $100m flotation on a US stock exchange, a mere 18 months after it was founded.

Publicity for Vanilla, which claims to have 45,000 investors recruiting members in 15 countries in Europe alone, describes the investment company as "the movement of the new millennium".

The UK Department of Trade and Industry sees it differently. It wishes to have Vanilla's UK arm wound up on the grounds it is a pyramid scheme, depending on a constant unsustainable flow of new investors to pay off existing investors. The case is due to be heard in the High Court in London today.

At the heart of the controversy is a scheme to sell gold coins. Customers pay Vanilla at least SFr80 ($55.50) as a down payment on contracts of at least SFr500 which they have a year to pay off. Each SFr80 down payment made by successive entrants into the scheme then pays off SFr30 of the original member's contract.

When 14 such payments have been made, the contract is paid off and the investor is encouraged to re-enter the scheme. Subsequent higher "phases" of the scheme involve larger sums of money. Investors see large paper profits which, they are told, they will be able to exchange for gold coins. Few British investors appear yet to have taken the option of receiving coins.

Some Netherlands investors have given up their SFr80 down payments as lost because the streams of new recruits needed to pay off their balances failed to materialise.

One Dutch investor said he lost £945 ($1,559) in 28 SFr80 down payments after finding only one new recruit over several months and having no help in finding others. One British investor claimed to have made £1,500 paper profits, although the money was reinvested and not delivered as cash.

Vanilla may have received as much as £21.1m in Europe alone since it was founded in December 1995. This is based on Vanilla's claim of 45,000 investors throughout Europe and on an average claim of £470 by a group of Netherlands investors seeking to recover their investments from Vanilla in the Netherlands civil courts.

Mr Deubelbeiss said Vanilla had 1,400 investors in the UK.

He added the scheme was sustainable because the market for gold could never be saturated. The firm insists it is a legitimate network marketing scheme, of the kind often used to sell water filters or other consumer goods.

However, some investors and those once close to the company have misgivings.

Vanilla is believed to have taken over the gold accumulation business after a previous investment company, US Gold International, attracted the attention of the Luxembourg authorities.

One Netherlands investor, who asked not to be named, said he lost Fl 70,000 ($36,082) he invested in USGI. When Vanilla took over the accumulation scheme, he was told his USG1 contracts would be honoured. However, when the contracts matured, he was told he would receive the gold only if he reinvested with Vanilla.

Mr Leo Valdivia, secretary of the group taking the action in the Netherlands, said he was waiting to hear whether the courts had granted his group's requests for Fl 150,000 on behalf of 100 investors. Mr Valdivia says there could be total claims running to around Fl 4m-5m in the Netherlands.

Mr Valdivia said many investors found they were not paid commission for recruiting when they had reached the appropriate stage in the system.

Mr Andrew Farmiloe of Howard Kennedy, a law firm acting for Vanilla, has said he intends to contest today's action on the grounds that Vanilla is a legitimate business.

Company accounts for Vanilla Services BV, whose shares are all held by a company in the Dutch Antilles, suggest it was bought as a shell company. No accounts have been filed since.

Vanilla On-Line Ltd, which receives payments for some goods from Vanilla customers, was incorporated in Gibraltar only eight months ago. Its shares are also held offshore, as were US Gold International's shares.

The US Securities and Exchange Commission has no record of filings by Vanilla or Eldan Estate Inc, another company associated with Mr Deubelbeiss, of the kind necessary for a flotation.

Robert Wright

ARTS

Television/**Christopher Dunkley**

Not bad, but could do better

In BBC1's new Monday night comedy series, *The Peter Principle*, Jim Broadbent plays a bank manager who is lazy, greedy, hypocritical and bad at his job. Broadbent used to be one half of the National Theatre Of Brent, and nobody who has seen his work at the Edinburgh Festival, the Tricycle Theatre or elsewhere, will forget it in a hurry. He is a superb actor who can play anything from the broadest knockabout farce to the most heavyweight drama. Yet even he has been having a bit of a job with Peter the bank manager. The main difficulty is that, like so many male characters in so many recent television comedies, Peter has no redeeming characteristics.

The first episode began with him trying to find a good reason for refusing to give a couple a mortgage, the applicants both being men. Peter's deputy, Susan, who is (of course, this being 1997 and Susan being a woman) industrious, generous, and brilliant at her job, tells him to stop being silly and grant the mortgage. But Peter tells the men the bank has run out of money. One of the applicants suggests contemptuously that Peter is probably homophobic because be is a closet gay himself. Peter spends the rest of the day throwing left jabs at the air, inquiring whether people have seen *Top Gear* and, for Susan's benefit, consuming a custard cream with hyper sensuality.

These bits of business are funny, and there is a neat subplot in which Peter receives a valentine card written by Susan who has penned it on behalf of another woman who intended it for a man in a different office. Given the woeful way in which so much television comedy these days relies entirely upon the lines for laughs, this plotting makes a pleasant change, and in subsequent weeks the amount of business has, if anything, gone up. Peter has spent the money for the cleaning lady's leaving present on an expensive lunch, got food poisoning from the oysters, been sick into a carrier bag, and inadvertently presented the bag as the leaving present.

Some of this is funny, some unpleasant, but the chief weakness is the failure to make Peter a proper human being. The strength of the monsters of comedy from Albert Steptoe and Alf Garnett to Gordon Brittas (even if he does lack the greatness of Steptoe and Garnett) is that, for all their offensiveness, they are recognisably real and rounded in their humanity. *The Peter Principle* turns out to be one of those productions which make the critic's job difficult: it is not a disaster calling for odium, nor a huge success justifying heaps of praise. It is a flawed series which, with some old fashioned stick-and-carrot work from the producer, might have been much improved.

Perhaps it is only coincidence, but this seems true of a remarkable number of current or recent programmes, and not only comedies. Take the Channel 4 documentary *My Sister*. This contained elements of the life stories of three sets of sisters. In one the eldest had been obliged to look after her younger sisters (and brother); in another the younger sister died in childhood; and in the third the sisters are now firm friends having been estranged for years while one drank. In each family there was a story to be told, but the programme did one of those familiar William Burroughs-style cut-up jobs, never staying long enough with one to tell the whole story properly. On the other hand there was, it seems, nothing to be drawn from these diverse stories about the nature of sisterhood generally. Tough talking from a commissioning editor might have achieved considerably increased value via one or both these avenues. It was not a bad programme, but could have been better.

Much the same is true of Sunday's edition of the BBC2 culture series, *The Works*. This looked at the recent exercise in which theatre critics had a go at directing. What every viewer wanted to know was whether they were any good, even though there is no reason why they should be. As Dr Johnson pointed out, you may scold a carpenter who has made you a bad table though you cannot make a table: it is not your trade to make tables. But *were* they any good? Who knows – the producer of the programme, perhaps, but she was not telling. We had one whispered phrase from actress Rosemary Leach about the chaos of working under Nicholas de Jongh, and one gleeful rebuttal by de Jongh of a point made in a review of his production, and that was about it. There were interesting moments in the coverage of the rehearsals, but it is hard to believe that the editor of *The Works* felt that this programme told us what we really wanted to know.

BBC1's Thursday night series, *Airport*, is another critic's dilemma. There have been many programmes like this before, documentaries observing in more or less fly-on-the-wall style what happens in a particular place or business, in this case Heathrow airport. Indeed, we have already had one series of this very programme. Measured against the average for such series (set in prisons, hospitals, department stores, whatever) *Airport* is adequate ... okay ... not bad. This week's episode about the effects of fog was almost enough to make you sorry for the brutes who staff the check-in desks. But last year in *The House*, the BBC's 1996 backstage series about Covent Garden Opera, we saw just what can be done if you put your mind to it and negotiate a tough agreement with those you are filming. Should we now be content to accept that which is adequate, okay, not bad?

The crime series *Dalziel And Pascoe* (BBC1) in which the hard cop/soft cop routine has been promoted to a central role in the plot – though to be honest it is the contrast between the man who has gone through the mill and the one who has gone through university that counts – is yet another example of a programme which is undeniably competent. The characters are well written and well contrasted, with a realistically complex web of prejudices, attitudes and beliefs wrapping the two together. Dalziel, the unreconstructed sexist, racist bully, has many of the facets and contradictions which Peter the bank manager lacks. But is competence all that is needed for television? How many viewers would go out and pay to watch this 90 minute drama in a cinema?

In some places (all right, in the Sunday broadsheets) television is routinely mocked for work which is, at worst, adequate. That is counter productive, but so is the over-praising of programmes which are no more than competent. The trouble is that no critic likes to have to say that a piece of work is average, ordinary, run of the mill, however true that may be.

Aldeburgh

Music for all weathers

Heigh ho, the wind and the rain! – Aldeburgh Festival time again. Some sharp hail, too; but also a few flashes of sun. Just the place for hearing new music, of which the festival offered a good deal last weekend.

The premiere of Alexander Goehr's new *Schlussgesang* ("Endsong"), a viola concerto in all but name, was delivered on Saturday by Tabea Zimmermann with brimming athletic vigour and dash, and with Oliver Knussen conducting the BBC Symphony. Their strings sounded less confident, not quite to have got their heads round Goehr's choppy syncopations.

This crypto-concerto – Goehr maintains that it is just a "suite of six (linked) pieces" – grew from a gentle Elegy he composed when his old teacher Messiaen died, for lightly accompanied viola. The newer five pieces employ a much bigger band, in curious ways, with obscure inspiration from Kafka. Solo cello and horn get large *concertante* roles. In *tuttis*, often strenuous, the orchestra rarely sounds like a "normal" one, more like a jagged *mêlée* of disparate voices.

There are aria-like passages, near-neo-classical patches (not tonal, but not very chromatic), spluttering woodwinds and snappy rhythmic games. It all has the ring of purposeful determination, without disclosing – so far, anyhow – what that purpose might be. Familiarity may breed understanding. It has done, after all, with Berg's *Lulu*, from which Knussen conducted the now familiar Suite with unbridled conviction. Valdine Anderson's soprano soared serenely in the most fearsome flights.

The previous night, Ursula Oppens played an odd programme: Beethoven's "Hammerklavier" Sonata and Rakhmaninov's op. 33 Etudes-Tableaux (interesting, but other pianists find more expressive density in them), and spikey pieces written for her by Charles Wuorinen (b. 1938) and Tobias Picker (b. 1954). Wuorinen's title, *The Blue Bamboula*, conjures up the slick Creole fantasies of Louis Moreau Gottschalk, but the piece itself sounds more 12-note-severe than extrovert, and barely bluesy.

Picker's opera *Emmeline*, which I reviewed from Santa Fé last year, obviously represented a certain compromise with conservative opera-going ears. His four multi-fingered new Etudes for Oppens – exceedingly difficult, I should think – are kinkier and witty, and she rocketed through them with communicative delight.

On a wet Sunday morning, the young Henschel Quartet (three of them called Henschel) played Mozart and Schubert damply. Well-schooled and temperate, muting the drama even of Mozart's superb D minor quartet: the bold Allegro became a cautious Allegretto. Yet we owed them gratitude for introducing a recent one-movement work by a 21-year-old, Heather Ann Schmidt (b. 1974 in Calgary, Alberta), whose *Phantoms* is a strikingly well-made, cogent and effective piece. I want very much to hear her new orchestral work.

David Murray

Ballet in Paris and Lyon/**Clement Crisp**

Sacrificial drama brilliantly sustained

A compelling vision: the Paris Opéra dancers transformed into a tribal herd in Pina Bausch's 'Le Sacre du Printemps'

Stravinsky scores; but the stages, on succeeding nights, are covered with earth and sawdust. The wily dance-goer will recognise that *Tanztheater* is on display, that extravagantly meaningful movement-theatre, pregnant with observations about the human condition, though not always able to give birth to much dancing.

The presiding divinity of the style is Pina Bausch, and while her own company from Wuppertal was appearing in Paris at the Théâtre de la Ville last week, Bausch entrusted her most brilliant piece to the dancers of the Opéra. (This is the first time any troupe other than Bausch's has been licenced to perform her work.) So the Palais Garnier stage was covered with earth (very clean-looking: I'd venture John Innes compost) and the elegant Opéra artists were transformed into the tribal herd who play out the sacrificial drama of *Le Sacre du Printemps*. The version is 20-years-old; it remains the most hard-driven realisation of the score that I know, the most dramatic and most brilliantly sustained.

The women stamp and tread their way over the earth, holding up little shiftdresses like children, shuddering with a fear that focuses on a single red rag. This is passed among them in fascinated terror, symbol of the forthcoming rite. The men, in black trousers, are as speedily begrimed with earth. The sweep and coalescing of the dance action, an almost palpable sense of fear, the inevitability of the sacrifice, finally break as the victim is chosen and the red rag, which is a vestigial robe, is put on her and the ritual runs its course. Bausch's vision is compelling, wonderfully realised by the Opéra dancers, for whom no praise can be too great. As the victim, Geraldine Wiart was admirable – possessed by forces outside herself – and Wilfried Romoli was no less powerful as the male leader.

Sacre came as the closing piece in a bill with Balanchine's *Serenade*, in luminous performance, and *Dark Elegies*. Tudor's realisation of the Mahler *Kindertotenlieder* is a masterpiece (and, intriguingly, Bausch worked with Tudor) but nowadays it is brought out for performance with the reverence owed to a fragment of the True Cross. So much care is taken with steps and "the Tudor style" that the piece is dead. The parents' grief, formal in expression, is as inscrutable as Noh drama. The original 1937 cast (most of whom I saw on stage) were dance-actors of rare ability: *Elegies* now has the emotional vitality you find with the dear departed in Lenin's tomb. Of the Opéra cast, one could not ask for better than Elizabeth Maurin and Nicholas Le Riche, but they labour in vain. What might revive *Elegies* for a new generation is performance by Pina Bausch's troupe.

On the next evening I went to Lyon where the Lyon Opera Ballet was presenting an evening of Stravinsky stagings by Joachim Schlömer at its home theatre (worth a visit for its handsome graphite-chic interior, blood-red corridors and silvery cat-walks, as for its productions). Schlömer has a double artistic ancestry, and one of polar opposites. A dancer with Pina Bausch, he also worked for three years with Mark Morris. For his Stravinsky double bill – the 1924 concerto for piano and wind, and *Petrushka* in the composer's 1947 orchestration – he is Bausch-ist, rather more than he was in *Blue Heron* which he made for Baryshnikov's White Oak Project.

Concerto, austerely set, touches on ideas of immigration to America, on spiritual desolation, on the finding or assuming of identity. (Very *TanzTheater!*) Given with evident dedication by its cast, it looked too static for a score that bristles with energy. *Petrushka* seemed to me altogether more successful. It can be argued – and I would do so – that the score and the drama it vividly tells, Benois' faultless recreation of Petersburg during the Butterweek Fair, are too firmly embedded in our dance-consciousness to make any other version valid.

Schlömer retains vestiges of the action, and his central trio are the same, but he plays out the tale in the same bleak space he used in *Concerto*, with the addition of a few paper lanterns and a thick covering of sawdust on stage to remind us of Petersburg snow and a fairground – and Bausch's *Sacre*. The score inspires him to livelier dance-making, and despite an element of scampering in the portrait of Petrushka, played in rather winsome fashion by Niklas Ek, the life of the music is clear in the dance. It would, in any case, be a brute who could resist the playing of the Lyon Opera orchestra under Kent Nagano. Every sonority was pungent, each rhythm alert: it was a superb account of the score (and made me remember Fokine and Benois rather more than I should). The company worked very well, with Sandra Seijo a Ballerina-doll of provocative sensuality. The orchestral playing and the soloist, Masahiro Sato, in *Concerto* were equally fine. I deplore, though, the arbitrary pauses imposed in the scores for choreographic reasons.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-573 0573
● Metropole Orkest: with conductor Jan Stulen and soprano Kim Criswell in selected highlights from Broadway musicals; Jun 29

ANTWERP

OPERA
De Vlaamse Opera
Tel: 32-3-233 6808
● Un Ballo in Maschera: by Verdi. Conducted by Imre Pallo, performed by the Vlaamse Opera. Soloists include Marcus Haddock, Soja Smoljaninova, Christopher Robertson and Sharon Graham; Jun 29

BARCELONA

FESTIVAL
Festival d'estiu de Barcelona GREC Tel: 34-3 301 4148
● GREC '97: this year's summer festival has a special focus on Flamenco and includes performances by Compañia Nacional de Danza, Nacho Duato, Orquesta del Gran Teatre del Liceu, Orquesta Simfònica de Barcelona i Nacional de Catalunya, Juan Carlos García, Paco Zarzoso and Joan Baixes; from Jun 25 to Jul 31

BASEL

EXHIBITION
Kunstmuseum Basel
Tel: 41-61-2710228
● Dürer Holbein Grünewald: display featuring 180 etchings from the 15th and 16th centuries, including works by Dürer and Grünewald; to Aug 31

BERLIN

CONCERT
Deutsche Oper Berlin
Tel: 49-30 343 8401
● Messa da Requiem: by Verdi. Conducted by Rafael Frübeck de Burgos; Jun 26

EXHIBITION
Martin-Gropius Bau
Tel: 49-30-3245078
● The Age of Modernism: large scale exhibition tracing the history of modern art throughout this century. Featured artists include Picasso, Warhol, Klee and Kandinsky; to Jul 27

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-9171200
● German Photography: display of 300 works from the 19th and 20th centuries, covering different aspects of the medium, including architecture, art, fashion, design, advertising and journalism; to Aug 24

BRUSSELS

EXHIBITION
Musées royaux d'Art et d'Histoire - Tour japonaise et Pavillon chinois
Tel: 32-2-741 7211
● Samurai: display of decorated swords belonging to Samurai guards, mainly the Tsubal and Kodogul from the Meiji period; to Sep 1

COLOGNE

EXHIBITION
Museum Ludwig
Tel: 49-221-221 6177
● Sechziger Jahre: Die neuen Abenteuer der Objekte - display featuring 130 works by 27 artists from the 1960s, including John Cage, Allan Kaprow, Joseph Beuys, Andy Warhol and Christo; from Jun 25 to Aug 17

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-671 8666
● The Glen Dimplex Artists Award Exhibition 1997: display featuring works by the six artists shortlisted for this year's award; to Jul 13

FLORENCE

EXHIBITION
Palazzo Strozzi
Tel: 39-55-215990
● The Dacians: display of objects excavated from sites of ancient Dacia (in modern day Romania), including military objects, ornaments and burial artifacts; to Jun 29

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-2998820
● George Heck: retrospective marking the 100th anniversary of this former pupil of Beckmann's birthday. On show are a number of oil paintings, etchings, watercolours and woodcuts; to Jul 6

INNSBRUCK

FESTIVAL
Internationaler Tanzsommer Innsbruck Tel: 43-512-5356-0
● Tanzsommer 1997: this year's dance festival features performances by Ballet Preljocaj, Hubbard Street Dance, Ungarisches Nationalballet and, opening the festival, Nederlands Dans Theatre 3, in a programme including *Evergreens*, choreographed by van Manen to music by Saint-Säen, Peyronnin and Lobos; from Jun 27 to Jul 13

LISBON

EXHIBITION
Centro Cultural de Belém
Tel: 351-1-361 2400
● Julia Ventura: Two Ways of Life: photographic exhibition by the Portugese artist, who uses her work to address questions of identity and the myriad ways in which the concept is put under pressure by cultural processes; to Aug 31

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-439 7438
● 229th Summer Exhibition: the Royal Academy's annual Summer Exhibition brings together paintings, sculptures, drawings and models by many distinguished British artists and architects, displayed alongside works by members of the British public. The majority of works are for sale; to Aug 10

MADRID

CONCERT
Fundación Juan March
Tel: 34-1-4354240
● Maarika Jarvi: performance by the flautist, accompanied by the pianist Graham Jackson. The programme includes works by Roussel, Thomas, Taffanel, Messiaen and Franck; Jun 28

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Prints in the Age of Albrecht Dürer and Lucas van Leyden: exhibition presenting highlights from the museum's collection of German and Dutch prints dating from 1470 to 1550. 110 engravings, etchings, woodcuts, and illustrated books are on display; to Jul 13

JAZZ
Avery Fisher Hall Tel: 1-212-875 5030
● McCoy Tyner Trio: featuring trumpet player Wynton Marsalis; Jun 26

PARIS

CONCERT
Orangerie de Bagatelle
Tel: 33-1 45 00 22 19
● Pierre-Laurent Aimard: the pianist performs works by Chopin, Bartók and Ligeti; Jun 26

EXHIBITION
Fondation Cartier pour l'Art Contemporain
Tel: 33-1 42 18 56 50
● Amours: exhibition celebrating images of love and romance, from Renaissance times to the present day; to Nov 2

STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-388 37 67 67
● Paul Meyer: performance by the clarinet-player accompanied by the pianist Eric Le Sage. The programme includes works by Mendelssohn, Schubert and Brahms; Jun 27

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Ian Davidson

Fault-lines appear

Omens from the recent Amsterdam summit for the cause of European integration were all negative

Last week's European summit in Amsterdam was a serious setback. But it may prove to have been much worse, more like a premonition of the crack-up of the traditional model of European integration.

The summit exposed many specific fault-lines between the member states: over economic and monetary union (Emu), freedom of movement, defence and the reform of the Community's decision-making institutions. But there is also a deeper common pattern beneath these rifts, and it is of a profound disagreement between the member states about the kind of Europe they want.

The question, of course, is whether this dispute is serious or just regrettable. The European Community has long known intense ideological struggles, most notably in the 1960s between President Charles de Gaulle and would-be federalists in other member states. But these battles were not terminal either way and today the federalist-national question is still unresolved.

The Amsterdam meeting was the most unsuccessful European summit for many years. It recalls, for me, the extraordinary US-Soviet summit meeting in Reykjavik in 1986, at which President Ronald Reagan and President Mikhail Gorbachev reached a personal agreement, man-to-man, to abolish all nuclear weapons. It was obvious that this agreement would not literally be put into effect and yet it was sensational in the context of east-west relations. The question was, what exactly did it mean?

It was as if we were rounding a headland of history. We could see the coastline shifting before our eyes, even if we could not yet interpret the new geography that was coming into view. It did not take long for this to become clearer: it was the beginning of the end of the cold war.

The omens at Amsterdam were all negative. The most striking was that the governments failed to agree on any of the institutional reforms necessary if the European Union is to take in 10 or more new members from eastern Europe.

They had long said that institutional reform was an absolute priority before enlargement, as a mega-Europe could not function without overhauling the decision-making rules: but last week they simply gave up the attempt to agree, and put off the problem to another day.

At one level, this failure is self-explanatory. Voting rules in the Council of Ministers give unfair weighting to small countries. Most east European countries are also small, so that in a mega-Europe the big countries could find they were swamped: but last week the little countries refused to surrender their advantages.

The episode may show that the integrationist model of the EU is approaching the limits of what is politically acceptable to the nation states. A mega-Europe would be so large and so diverse that it could only function effectively if it had significantly more federal institutions than at present. The evidence of last week is that the federalist case no longer appeals to the small member states.

But this may also be a knock-on from a bigger political problem, the fracturing of the Franco-German partnership. If the EU has made progress in the past 10 to 15 years, it is because its agenda has been driven by France and Germany in a partnership formerly cemented by the close relationship between President François Mitterrand and Chancellor Helmut Kohl.

Since the election of President Jacques Chirac in 1995, however, the partnership has lost cohesion, mainly because Mr Chirac is less committed to the European idea than his predecessor. Before the Amsterdam summit, he and Mr Kohl held the normal Franco-German bilateral preparatory meeting but, for the first time, failed to agree on the way forward.

The sharpest debate arose from the attempt by the new French Socialist government of Mr Lionel Jospin to re-write the terms of Emu, to give it a more expansionary slant. But the heart of the matter is not the terms of the stability pact for enforcing budgetary rigour in the planned single currency zone, but the fact that Mr Jospin's concerns are mainly domestic and national. Neither he nor Mr Chirac gives overriding priority to the strategic objective of European integration.

This could have profound implications for the European paradigm. It is said that Emu will only happen if both France and Germany are in, since Emu is essentially a political project, driven by the Franco-German partnership. It is also said that France and Germany *will* both be in, even if this year's French budget deficit is outside the Maastricht treaty criteria, because leaving France out would have horrendous political consequences.

These assumptions may no longer hold. For if the French themselves put a lower political priority on Europe, the traditional European model may be in question and the Germans must then choose between alternative ones. On Emu, they can press for France to be included, in the hope of rebuilding a political hard core for Europe; or they can opt for a monetary hard core, limited to Germany, Austria and the Benelux countries; or they can scuttle the entire project.

Logic suggests that neither France nor Germany can afford a parting of the ways. The trouble is that the political situation in France is a mess, divided between a president who does not believe anything much and a prime minister who believes in old-fashioned socialist nostrums. But, if the French can raise their eyes from their domestic preoccupations, they will see that the alternative to a Franco-German Europe will be a German Europe.

Cracks in the partnership: Chirac (left) and Kohl

·LETTERS TO THE EDITOR·

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Misguided concerns of draft EU directive on takeovers

From Mr Bryan Cassidy MEP.

Sir, You are right to highlight the shortcomings of the European Commission's draft directive concerning takeover bids ("Ministers to challenge EU on takeovers", 23 June).

The proposal does nothing to assist the cross-border takeovers which are essential if industry in the EU is to be able to create world-size companies to compete with the US and Japan. Nor do the 22 amendments from the European parliament's legal affairs committee which will be put to the vote on June 26 in Brussels. Some of those are more concerned with information and consultation of the "representatives of employees" than with protecting the rights of small shareholders.

All is not yet lost, however. This is only the first of three readings. It is quite likely, too, that the proposal will come to the "British presidency" in the first six months of 1998. The new Labour government appears to share the views of its Conservative predecessor.

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Obviously, it's all in the recruitment

From Mr Rakesh Rawal.

Sir, I refer to your article on British and American investment banks ("The price of ambition", June 18). As a headhunter operating in the City of London, who has worked with many investment banks, I suggest it is blindingly obvious why American investment banks are among the best in the world. It's their recruitment process, stupid!

The US houses are meticulous when hiring at all levels. It is not uncommon for derivatives traders to go through seven to 10 rounds of interviewing before any offer of employment is made. The candidates will have met around 15 people and have been assessed on their intellectual and technical ability, commercial awareness, as well as previous trading history. Only then will a compensation package be engineered which will not only tempt the candidate to join, but also directly reward for future performance.

Furthermore, it is also significant that US investment banks are regarded to be the most meritocratic by candidates of differing nationalities and social backgrounds.

In a highly competitive and rapidly changing industry, it is the professionals the American investment banks hire that have the vision and adaptability to take advantage of change. Far too often, British investment bankers have behaved like civil servants, longing for the good old days when the City was a smaller, friendlier, predictable and inefficient place.

It is not surprising then, that the Americans have managed to subdue their British rivals without actually fighting. In Sun Tzu's words, "the supreme act of war".

Rakesh Rawal,
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Recognising the value of leadership

From Mr John Beaumont.

Sir, Tony Jackson is correct to highlight that "corporate strategy should be about choosing trade-offs", but in his interview with Michael Porter ("Why being different pays", June 23), he does not develop further Prof Porter's important shift of opinion about strategy, moving from a focus on understanding the external environment to the significance of leadership.

In considering an organisation's alternative choices, it is important not only to understand internal constraints, both resources and capabilities, but also, when there is a clear focus for the future ahead, to be willing to say no to initiatives that would be deviations from the chosen path. Moreover, as alluded to in the interview, even when the strategic focus is clear, leadership and management need to go much further than operational efficiency to create differentiated customer value.

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EU banana import regime discriminates against Ecuador

From Mr Alfredo Pinoargote.

Sir, I refer to Mrs Glenys Kinnock's letter (June 19) on the World Trade Organisation ruling on bananas. I know Mrs Kinnock and a number of her colleagues recently visited the Windward Islands and the fate of the producers in these countries is of concern to them.

The banana industry of Ecuador is of great concern to our government. Ecuador is the most efficient producer in the world and exports the greatest volumes of bananas. Our banana production is 100 per cent owned by Ecuadorians and the US company Chiquita has no involvement in our industry.

Ecuador requested the creation of a WTO panel on bananas, shortly after we joined the WTO in January 1996, because we believed the EU banana import regime discriminated against our banana industry. The panel's findings have proved us right. In particular, the licence allocation system favours EU companies who have been selling licences on and earning huge profits thereby. There is no evidence that these profits have been passed on to the banana producers. Indeed, I understand that the government of St Lucia, one of the islands that Mrs Kinnock visited, has had to subsidise its producers from its own funds.

The Ecuadorian banana industry has paid about $40m per annum as a result of the EU licensing system. One is tempted to ask – where is the money going? As a developing country, Ecuador is not prepared to subsidise companies in the developed EU, while our producers and the producers in the Caribbean suffer.

We sympathise with Mrs Kinnock's evident concern for the Windward Islands but a better way must be found of assisting them that does not penalise Ecuador.

Alfredo Pinoargote,
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Belgium

Anthony Robinson on the struggle to rebuild an economy

Serbia still outside the gates

"Welcome to Kragujevac: home of the Yugo", reads a battered sign at the entrance of the city that used to be the Turin of Yugoslavia and is now a symbol of Serbia's gutted economy.

Before the disintegration of Yugoslavia, the Crna Zastava (Red Flag) car plants in this city 130km south of Belgrade turned out up to 220,000 cars a year. Its linked military factories produced arms and vehicles. The ubiquitous Zastava Yugo model briefly competed with other cheap imports in Europe and the US.

Today, Zastava is hard pressed to produce 10,000 cars a year, while military orders from the cash-strapped Serbian army have virtually dried up. Last year thousands of workers went on strike and in November Mr Veroljub Stevanovic, the managing director sacked in 1992, was elected mayor for the opposition Zajedno movement. His was one of many opposition election victories whose attempted annulment by Mr Slobodan Milosevic, Serbia's president, sparked three months of nationwide demonstrations.

The disintegration of former Yugoslavia and four years of trade sanctions against Serbia severed access to markets, raw materials and components, dealing a near-lethal blow to dozens of plants like Zastava.

This week in London a delegation led by Mr Danko Djunic, the deputy prime minister of rump Yugoslavia, sought to throw a lifeline to such plants by proposing a debt restructuring deal to the London Club of commercial bank creditors, calling for an 80 per cent reduction in Serbia and Montenegro's $2.4bn debt. This was too much for the banks to swallow and the talks broke up inconclusively, although both sides agreed to meet again in July.

Mr Milosevic is being advised that a deal must be reached if new investment is to flow into what is still widely seen as a pariah state. Other former Yugoslav states have raised hundreds of millions of dollars through sovereign and corporate bond issues and equity placements after reaching agreements with the Paris and London Clubs.

Trade sanctions were lifted last year in return for Serbian compliance with the Dayton peace agreements, which ended the war in Bosnia. But the "outer wall" of financial sanctions which bar Serbia from membership of the International Monetary Fund and access to international capital markets remains in force.

The collapse of Zastava has created huge social problems for the one-company town. "Over 70,000 are waiting for a job, another 30,000 are on enforced 'vacation' and the population is swollen with 5,000 Serb refugees," Mr Stevanovic says. "This city has the greatest social problems in Europe." The mayor believes Zastava could be revived, but only with foreign investment and new management to replace the party hacks put in when anti-Milosevic dissidents like him were sacked.

"Executives from Hyundai, Renault and Fiat itself have all looked around recently. We know there are too many workers and there will have to be retrenchments. But the real problem is that the communists are still in power – and that is simply not attractive to anyone," Mr Stevanovic says.

Only 50km from Belgrade, in the steel town of Smederevo, life is significantly different. The steel complex was always a heavy loss-maker. But it received much investment in the early 1980s, although the plant was closed when sanctions were imposed in 1992.

Yet unlike Kragujevac with its opposition mayor, Smederevo's managers smoothly switched allegiance from the Communist party to Mr Milosevic. The managing director of Smederevo, Mr Dusko Matkovic, is also the deputy chairman of the Serbian Socialist party, headed by Mr Milosevic himself. With this level of political support, workers at Smederevo continued to receive their pay during the four years until it reopened last year. The plant is expected to produce 1.2m tonnes of steel products this year, mostly for export.

The export drive reflects both depressed domestic demand and the government's need for hard currency. This has been only temporarily mitigated by this month's one-off sale of 49 per cent of the Serbian telecoms company to Stet of Italy and OTE of Greece for DM1.57bn ($910m).

Serbia's trade deficit was more than $1bn last year and rising. "The problem is that Serbia's biggest exporters are also its biggest importers. The more they produce the bigger the deficit," worries Mr Goran Pitic, head of research at Belgrade's Economics Institute. Mrs Danica Popovic, at the rival Centre for Economic Studies, adds: "There is no economic strategy and that means there is no direction at the micro level at all. The people that run plants like Smederevo and Zastava are apparatchiks, not managers."

Mrs Popovic is sceptical of the government's new-found belief in privatisation, pointing out that 96 per cent of the country's assets are still in state hands. But about 35 per cent of economic output is produced by the private sector, she estimates.

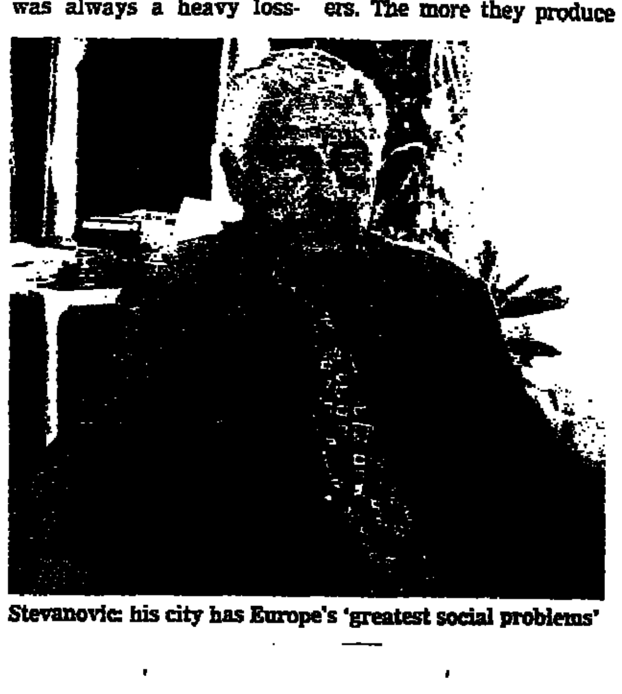
Serbian industry is still working at only 36 per cent capacity against 73 per cent in 1989.

Serbia has survived by consuming its capital, including the estimated $4bn in effect stolen from private hard-currency accounts in 1991. They were taken by the Belgrade-based Yugoslav National Bank which froze such accounts throughout former Yugoslavia shortly before war broke out. The funds were squirrelled away in secret accounts in Cyprus, Switzerland and elsewhere to pay for the war.

The economic cost of Mr Milosevic's failed attempt to create a Greater Serbia is borne by ordinary Serbs whose average annual income has fallen by more than 50 per cent to about $1,500 since 1990. But while Serbia has stagnated in isolation, other former Yugoslav republics, especially Slovenia and Croatia, have forged ahead with economic stabilisation and privatisation. They have created strong, convertible currencies backed by growing foreign currency reserves and attracted foreign investment.

Serbia's best hopes for economic recovery now lie in restoring economic and trade links with these independent states.

Even under the most optimistic assumptions, however, Serbia faces a struggle to rebuild its economy. It will no longer receive a share of Slovenia's export revenues or the hard currency tourist receipts of Croatia, both of which helped to sustain it in the days of federal Yugoslavia. And as long as Mr Milosevic remains in control, it will also be hamstrung by financial sanctions.



Stevanovic: his city has Europe's 'greatest social problems'

FINANCIAL TIMES

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Wednesday June 25 1997

Squalls in the Atlantic

Things are not as bad between the US and Europe as they were three years ago, at the height of the Bosnian crisis. But recent weeks have brought reminders that transatlantic entente cannot be taken for granted, absent a clear common danger.

Freshest in the mind are the disputes at the Denver summit. There, the US irritated its European allies by rejecting explicit targets for greenhouse gases, and by triumphantly advertising itself as a socio-economic model. President Bill Clinton's attempt to squeeze his guests into cowboy boots was all too heavy-handedly symbolic.

Those boots came hard on the heels of the US announcement that it will consider only three candidates (Poland, Hungary and the Czech Republic) for Nato membership at next month's Madrid summit, brushing aside the claims of Romania and Slovenia which some European allies had strongly canvassed. That went down all the worse for being accompanied by US hints that it is the European Union's job to underwrite stability by admitting new EU members from parts of Europe Nato cannot yet directly reach.

Beneath these disputes, trade-related arguments rumble on, on such issues as extra-territoriality, restrictive practices, or genetically altered food. These obscure the good work done removing non-tariff barriers on both sides by the Trans-Atlantic Business Dialogue.

And on the horizon looms Bosnia once again. Few believe the Dayton accords will have become self-enforcing by the time the mandate of the Nato-led stabilisation force expires a year from now. An external force will almost certainly still be needed. But, while most Americans think any such force should be provided by Europeans, many European policy-makers are terrified that they will find themselves once again struggling to keep an imperfect peace while the US, wittingly or otherwise, encourages local parties to break it.

The EU's timidity and self-absorption, pitifully displayed in Amsterdam last week, certainly merit American impatience. Nor can the Clinton administration fairly be accused of neglecting Europe. The Dayton accords and the skilful finessing of Russian hostility to Nato enlargement are striking evidence to the contrary. Still, the US should understand that admitting new members to the EU is more like making Mexico a state of the union than signing the North American Free Trade Agreement.

The US also needs to consider what message it sends to potential aggressors by withholding explicit security guarantees from states with which it wants to see its allies so closely integrated. It should have learned in Korea, and again in Kuwait, how dangerous such ambiguities can be.

Russian reality

Thanks to President Boris Yeltsin's new team of reformist ministers, the Russian economy is being taken seriously again. This optimism has been handy for the government, letting it pull off the rare coup of becoming simultaneously a member of the Paris Club of official creditor nations and one of this year's most prodigious emerging market borrowers.

The renewal of confidence contributed to Mr Yeltsin's successful outing at the Summit of the Eight in Denver, a fitting end to his new team's first hundred days. But as so often when it comes to Russia, outside perceptions are in danger of getting ahead of events on the ground.

Mr Victor Chubais and Mr Boris Nemtsov, the two deputy prime ministers spearheading the new reform drive, have notched up some notable achievements since March. And yet, however encouraging the new rhetoric, in many respects the two reformers have yet to make much of a dent on reality.

Large-scale spending cuts are testament to the failure to revive federal tax revenues, which still languish at around 10 per cent of GDP. The Duma waved through the new tax reform last week on its first reading. This means the cabinet is counting on much better revenue in preliminary versions of next years' budget. But the reform is still in danger of being amended out of all recognition in the autumn when it is goes back to the parliament. And even if the new taxes are introduced roughly as planned, there is little guarantee that the authorities will be any more willing or able to make people pay up than before.

Equally, the new team's efforts have not put to rest fears that Russia is evolving a capitalism driven by the nods and winks of well-placed insiders. Recent privatisations have been just as opaque as the contorted "shares-for-loans" deals of late 1995. And Mr Chubais has given in to bankers' demands for a piece of the stock market action, allowing the central bank to license banks to act as share dealers from the start of next year.

This is the latest move suggesting that Russia may be moving towards a style of capitalism, as in Germany, that is dominated by banks. Mr Chubais may be correct that companies need all the help they can get raising funds for investment. But the change will do little long-term good without strong new institutions to regulate bank behaviour and encourage transparency. Foreign investors are right to believe the new team has a better chance of pushing through such changes than its predecessors – wrong if they think the task is as good as done.

Felipe's coup

Mr Felipe González knows how to pull a good political trick. The former Spanish prime minister took his own Socialist party by surprise when he suddenly announced his decision to step down as party leader last week. And yet he has emerged from the affair with his own reputation higher than ever, and loyal supporters in control of the party. It looks like a shrewd coup to shake up the organisation, and still end up in charge.

It is not clear whether Mr González has done as much for his party as he has undoubtedly done for himself. The success of his palace coup is that it freed a logjam in the party leadership, removing a whole group of party traditionalists in the process. In so doing, it also appears to have moved the party slightly to the left. Mr Joaquín Almunia, the new leader, announced his aim to rebuild a "progressive social majority", appealing to moderates within the rival Communist-led United Left to join him.

The party congress has also voted for a reduction in weekly working hours from 40 to 35 to combat the country's chronic unemployment, imitating the successful Socialist election platform in neighbouring France. To be sure, it has hedged the idea about with provisos about not undermining competitiveness and productivity. Yet the idea that shorter working hours can somehow magically create new jobs without pushing up labour costs is dangerous and simplistic.

Mr González' move does not make life any easier for Mr José María Aznar, the Popular party prime minister, who still lives rather under his predecessor's shadow. As parliamentary leader of the Socialists, Mr González is keeping his options open about whether he will run again as head of the party list whenever the next elections are called. He is still very much a power to be reckoned with on the Spanish stage.

Mr Aznar is enjoying the fruits of respectable economic growth, with inflation under control and Spain now regarded as a probable, rather than a possible, founder member of the European single currency. His minority government has proved more stable than expected, sustained by the support of the Basque and Catalan regional parties. He has had to make concessions to federalism to do so. But the only real cloud is unemployment, officially estimated at 21.5 per cent.

Nevertheless, Mr González is an operator who should never be underestimated, as his latest coup demonstrates. If his party can rejuvenate itself, he could still return as a formidable challenger before the turn of the century. After all, he is only 55.

Long march to mass market

Early setbacks aside, foreign car companies are keen to stay in China because of its huge potential, writes **James Harding**

Nearly half a million Chinese thronged to the Shanghai International Auto Show earlier this month, caressing the leather upholstery on executive saloons and having their pictures taken behind the wheel of the latest sports car.

Few, if any, were looking to buy. With an average wage in Shanghai of around $100 (£60) a month, most visitors could only dream of owning one of the shining models displayed by the world's leading car companies.

The event encapsulates the Chinese challenge for the car industry. China is the world's most promising automotive market but, until it fulfils its potential, manufacturers must invest billions of dollars and endure untold frustration to cultivate future consumers.

Among the foreign investors is General Motors, the US carmaker, which this month started work in partnership with Shanghai Automotive Industry Corporation (SAIC) on a $1.57bn plant to build Buicks. It is also negotiating a partnership in Guangzhou, southern China, to manufacture Opel cars.

Another US manufacturer, Ford, is to increase by $54.5m its stake in Jiangling Motors, with which it will start producing minibuses later this year. These will be the first vehicles made by Ford in China. They will be a precursor, Ford hopes, to production of cars. Toyota of Japan has just announced a $30m investment in a components plant in Tianjin, south-east of Beijing, to stand alongside other investments in the area where it is spending a further $248m to build an engine manufacturing plant.

The rising foreign investment has come in spite of an alarming catalogue of casualties.

Mercedes-Benz has become increasingly frustrated with its project for a $1bn plant to produce minivans, or light commercial vehicles, which has been stalled by disagreements between the German company and its Chinese partner since it was approved in 1995.

Peugeot of France, one of the first foreign car manufacturers to enter the market, has negotiated a withdrawal from a disastrous joint venture in Guangzhou. Production fell from 20,000 units five years ago to about 3,000 last year. Furthermore, Peugeot's control of the operation was restricted by the company holding only a 22 per cent share: foreign manufacturers are forbidden from having majority stakes in car industry joint ventures.

In another setback, Audi, the executive cars subsidiary of Germany's Volkswagen group which has a joint venture with First Auto Works in Changchun, north-east China, has put a brave face on FAW's independent production of an Audi lookalike car. The model is sold under FAW's Red Flag brand.

Such risks notwithstanding, investors say they have little choice but to enter the market. "Some day China is going to be the biggest single market, without a doubt," says Mr Philip Murtaugh, general manager of GM's new project in Shanghai.

The Ministry of Machine Industries forecasts that total vehicle sales, including cars, vans and trucks, will grow from 1.6m units last year to 2.7m units by 2000 and to more than 6m by 2010. By then, passenger vehicles will account for two-thirds of the market compared with less than a third today. China has just over one vehicle per 100 people, compared with 33 in Taiwan, 52 in the UK and 75 in the US.

Mr Vaughn Koshkarian, president of Ford China, expects that by 2010 China will have four vehicles per 100 people and "a market volume of between 5m and 6m vehicles, the fourth largest market in the world after North America, Europe and Japan".

"By 2010, after substantial consolidation, this automotive industry will have a highly educated, skilled and industrious workforce," says Mr Koshkarian. "In essence, China will have everything necessary to become a primary, if not *the* primary, manufacturing nation in Asia."

China's car market has a long road to travel before then. The consumer market is negligible. The average annual wage, excluding most rural workers, is Yn5,500 (£400), according to the State Statistical Bureau. Even at current growth rates, per capita gross domestic product will take until beyond 2020 to reach $6,000, a critical level for mass consumer purchases, according to one western carmaker with a presence in China.

The slower-than-expected growth of the car market is partly the result of the contradictory aims of China's government. Although Beijing has legalised the private ownership of vehicles, the tax regime still makes owning a car prohibitively expensive.

Foreign companies are also struggling to secure a relaxation of personal car loans which are only allowed on a restricted basis. Beijing's drive to cool rampant inflation after 1994 also halted growth in vehicle sales although there are signs of a recovery. In the first four months of this year, 151,200 saloon cars – easily the most popular type of car in China – were sold. This was an increase of 30 per cent on the same period last year, according to state media reports.

Mr John Crossman, head of Jardine Fleming in Shanghai, says a manufacturer needs to build more than 150,000 cars a year in China to make a healthy return. Only Shanghai Volkswagen, a joint venture between the German car manufacturer and Shanghai Automotive Industry Corporation, has crossed that threshold. The company sold 200,000 Santana cars last year, about half the total car market.

Other foreign manufacturers – Daihatsu of Japan producing the Charade in Tianjin, Chrysler of the US making Jeeps in Beijing, Audi in Changchun and Citroën of France making ZX models in Wuhan – have much lower sales. Nevertheless, international carmakers are shaping the Chinese market: foreign brands made in joint ventures account for almost all sales of cars.

Most of these cars are sold in the home region of the joint venture because regional authorities often intervene to boost local manufacturers and thwart the ambitions of Chinese competitors. One of the most common complaints among foreign carmakers is that, even if they maintain thorough control of production quality, they have little say over distribution, which remains firmly in Chinese hands.

Given the patchy road network, the uneven market and limited private purchasing power, car companies have to focus on sectors of the automotive industry which promise the quickest returns.

"Passenger cars still make little sense in China," says Mr Crossman. "We are moving into the minivan and pick-up stage of development. The minivan can haul around 500lb-800lb worth of goods or five to six people. It fits a country moving away from an economy of large state-owned enterprises, to small town and village enterprises and entrepreneurial businesses."

That logic – and the fact that Ford lost to GM in the competition to open the car plant in Shanghai – underpins Ford's partnership with Jiangling Motors. But, although Ford says minibuses are "an appropriate way into the China market now", it hopes to be making cars by 2005. By then, when, it says the country will have realised its potential "an extremely important market".

GM is targeting another niche: the executive car market. It says its Buicks will sell when they start coming off the production line at the end of 1998. "Our market is predominantly executive fleets," says Mr Murtaugh. "A mid-luxury saloon is out of reach for the ordinary consumer, but our buyers are businesses – state-owned enterprises, foreign-invested enterprises and the managers of companies."

The least profitable sector is that for compact cars, which is most exposed to sluggish consumer demand and dogged by oversupply.

Beijing is keen to foster its domestic automotive industry by injecting foreign capital and technical expertise into its flagship manufacturers and has promised to restructure the 160 mostly loss-making domestic manufacturers. These concentrate on producing compact cars and agricultural vehicles. The government announced earlier this year that 30 companies would be forced to merge or apply for bankruptcy, but the industry has yet to see any action.

The quality of China's car manufacturers may hold the key to success or failure for foreign car companies in China since foreigners can only build cars through ventures with domestic companies. "Ventures in China fail because joint ventures fail. Your partner will make you or break you," says a European car industry official. The choice of Chinese partners, though, is limited by three factors:

- The government tends to decide who will be paired off with whom.
- There are only three big automotive plants – the state enterprises Dongfeng Automotive in Wuhan, First Auto Works in Changchun and SAIC in Shanghai – and a mixed bag of smaller potential partners.
- Under the national plan, only one large car deal – the one just signed between GM and SAIC – is envisaged between 1996 and 2000.

GM's Mr Murtaugh remains confident of success within 10 years. "We are not coming into this market to lose money," he says.

To those who suggest it might be better to wait until 10 years have passed, Mr Murtaugh draws a parallel with the carmakers that missed out on other Asian markets by failing to make an early sacrifice. "That is what every manufacturer said about Japan in the 1950s and Korea in the 1960s. And look where they are now."

OBSERVER

[illegible]

Deutsche Telekom says it has absolutely no plans to serve supper.

Bitter pill

■ News that Milan Panic, [illegible] boss of California's ICN Pharmaceuticals, is buying [illegible] Roche's surplus pharmaceutical plants should bring tears to the eyes of the most hardened corporate predator. It's only 18 years since Panic bought a 10 per cent stake in the Swiss pharmaceutical giant and seemed intent on mounting a takeover bid for a company roughly 200 times ICN's size.

Panic's plans fizzled out and his next takeover bid was only marginally more successful; in 1992 he took over as prime minister of Yugoslavia, but in less than a year had lost his job. A similar fate seemed likely when he returned to ICN, but the [illegible]-year-old survived a series of proxy battles and allegations of insider trading and sexual harassment.

Say what you will about Panic, he's a survivor. He set up ICN with $200 and is still trying to break into the big leagues. There's even talk of a bid for the Yugoslav presidency later this year. Still, when he last did business with Roche he owned over $200m of Roche shares. If only he'd held on to them they'd now be worth $2bn – or more than twice the current market value of ICN. Instead, Panic is issuing nearly 10 per cent of ICN's equity to pay Roche for its cast-offs.

Bad trip

■ If there's one thing worse than flying with an inefficient airline, it's trying to run one. Passengers suffering this week at the hands of striking Olympic Airways mechanics might find some relief in a story told by Stelios Haji-Ioannou, founder of easyJet, the low-cost airline based in the UK.

Some years back, Haji-Ioannou was thinking about starting a new airline in Greece but was unsure about the prospects. For advice he called Rigas Doganis, a fellow Greek and professor of air transport at Cranfield University. By all means start an airline, said Doganis, but don't do it in Greece: the unions are militant and the government is unsupportive.

So, in 1995, Haji-Ioannou set up shop in Britain. By then, however, Doganis was not only running an airline, but in Greece – having been unable to resist a government invitation to become Olympic chairman. While Doganis produced the airline's first operating profit since the 1970s, the unions were militant and the government was unsupportive. He found himself back at Cranfield after little more than a year.

New age man

■ Preston Manning, leader of Canada's right-of-centre Reform Party, used to revel in his image as a folksy prairie populist. Four years ago he made sure TV cameras were on hand when he stuck a 'for sale' sticker on the government limousine offered to all party leaders. During parliamentary sessions in Ottawa he and his wife lived in a modest Travelodge hotel; he even suggested that Stornoway, the mansion reserved for the leader of the opposition, should be turned into a bingo hall.

Things started to change in the run-up to this month's general election. First there was the laser eye surgery, which allowed Manning to shed his spectacles. Then came the new hairstyle and lessons to improve his speaking voice.

Since he emerged from the election as opposition leader, Manning's views on the perks of power have also shifted. Now chauffeured around Ottawa in a government car, he's decided to live at Stornoway after all. The Reform leader says he changed his mind because party supporters urged him to; when asked to name a few, he changed the subject.

Financial Times

100 years ago

Canadian Railways
Ottawa, 24th June. The Senate last night rejected by 37 votes to 10 the Bill for the ratification of the agreement between the Government and the Grand Trunk and Drummond Counties Railways for the extension of the intercolonial railway to Montreal. The chief objection urged was that the terms demanded were extravagant. An hour after the vote had been taken in the Senate, the Finance Minister brought down further supplementary estimates, amounting to $157,000, for nine months' rental of the tracks and terminals necessary to run the Government road to Montreal.

50 years ago

Plan To Save The Franc
Paris, 24th June. M. Ramadier's financial programme was adopted this afternoon after a sixteen-hour debate by the Assembly by 302 votes against 241 and 59 abstentions. The small majority obtained by the Government reflects the unpopularity of the Bill, as well as the doubts prevailing in Parliament as regards its effectiveness. The Communist leader, M. Jacques Duclos, criticising the Bill, said that the Bill opened the way to inflation.

FINANCIAL TIMES
Wednesday June 25 1997

US consumer confidence climbs to 28-year high

By Gerard Baker in Washington

Economic expansion has left US consumers more confident than at any time in the last 28 years, according to an influential monthly survey yesterday.

The Conference Board, a private sector business research group, said its index of consumer confidence hit 129.6 this month, its highest since August 1969. The report sparked fears of a renewed surge in consumer spending that could stoke inflation.

But with little evidence of inflation in the pipeline, financial markets seemed content to regard the figures as merely reflecting the recent extraordinary strength of the economy. By 1pm, the Dow Jones Industrial Average was up 29 points at 7,633, clawing back some of the 192-point loss on Monday.

"The record level of confidence ... is indicative of the past robust economic environment rather than a signal for a pick-up in consumer spending," said Ms Cheryl Katz, economist at Merrill Lynch in New York.

The outlook for consumer spending remains positive. Retail sales grew at a rapid 6 per cent real annual rate in the first three months of the year before slowing in the second quarter.

After years of insecurity about their employment and income prospects, Americans now have more reasons to be optimistic than they have had for decades – unemployment is at a 25-year low and the core rate of inflation is close to its lowest level in 30 years.

"Latest survey results show consumer confidence continuing to run at historically high levels," said Ms Lynn Franco, associate director of the Conference Board's Consumer Research Center. "Despite a slight change in consumers' short-term expectations, they continue to be bullish about the economy."

Another factor that seems to have contributed to this has been the stock market's sharp rise in the past year. The proportion of Americans who own shares has doubled to more than 40 per cent since in the past seven years. The Dow has risen 35 per cent since June last year, producing a potential windfall of about $5,000bn in the past year alone for US households.

William Dawkins in Tokyo adds: Japan yesterday sought to tone down a veiled threat from Mr Ryutaro Hashimoto, prime minister, that it might sell US Treasury bonds unless the US continued to co-operate in stabilising currency markets. Mr Hashimoto triggered a sharp drop in US share prices with comments on Monday.

But Mr Takatoshi Kato, deputy finance minister for international affairs, said: "Even though some mentions were made of these temptations in the past, Japan never sold Treasury Bonds for profits because of the overriding importance we attach to the Japan-US relationship and to the stability of the currency market."

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Financial muscle .... Page 6
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UK to offer IRA a final chance for new ceasefire

By John Kampfner in London

The British government will today give the IRA a final chance to declare a ceasefire in Northern Ireland by disclosing details of a discreet government letter to Sinn Féin, the IRA's political wing, and a new approach by the British and Irish governments to paramilitary weapons.

The proposals yesterday received a cautious welcome from the Ulster Unionist party, the largest party representing loyalists in the province. Mr Tony Blair, UK prime minister, will announce that the latest Anglo-Irish formula should remove obstacles to progress at the multi-party talks.

For the first time Mr Blair will set out a detailed mechanism for allowing negotiations on arms decommissioning to proceed in parallel with work on a constitutional settlement for Northern Ireland. The UK's previous Conservative government had accepted the idea of parallel negotiations in principle but had drawn back from detailed proposals.

Although highly technical, the move is significant as it provides a mechanism for meeting the worries of both unionists and nationalists on decommissioning – the biggest stumbling-block to progress on a political settlement.

The formula, set out in a document made available to the Financial Times, envisages that an independent commission comprised of arms experts would report to a committee of leaders of all the parties at the talks.

The commission would undertake to provide "whatever is necessary to facilitate, observe, monitor and verify decommissioning". Two separate subcommittees would oversee the specifics of decommissioning – the main worry of unionists – and "confidence-building measures" which are largely nationalist concerns such as policing, parades and prisoners.

Mr Blair is co-opting much of the wording from the January 1996 report on the arms issue produced by a international body led by former US senator George Mitchell. Subsequent multi-party talks, chaired by Mr Mitchell, became bogged down by the arms issue.

Sinn Féin refused to take part, demanding that decommissioning take place only once an overall settlement is reached. Unionists have until now insisted that arms are handed over before substantive negotiations begin.

Bullet and ballot, Page 10

Eurotunnel urged to seek rail freight

Continued from Page 1

objective of reaching at least an agreement in principle" in the next few days.

But the UK department of transport said it was "premature" to suggest Mr Prescott was about to agree to an extension of the Eurotunnel concession. "Prescott is not in the business of giving away the concession for nothing," said one transport executive. An extension would boost the company's future long-term income, raising the prospect that it could win approval for its financial restructuring plan from its 174 creditor bankers and its 730,000 shareholders, who are due to vote on the proposals next month.

In line with expectations, only 7 per cent of the company's shares were represented at yesterday's meeting, below the 33 per cent required for a quorum. Eurotunnel needs to achieve attendance by shareholders or proxies representing 25 per cent of the equity – or 230m shares – at the extraordinary meeting scheduled on July 10 for a vote on the restructuring plan to be valid. Mr Ponsolle, renewed his calls to shareholders to support the restructuring.

Thailand relaxes laws on financial megers

By Ted Bardacke in Bangkok

The Thai cabinet yesterday approved four emergency decrees to help restore the stability of the country's financial institutions. The decrees remove obstacles to mergers between troubled and healthy finance companies.

The cabinet, however, stopped short of pushing for the radical overhaul of the financial system that many believe is needed to get the economy back on track.

The crisis developed early this year when the central bank pushed up interest rates to protect the baht in response to inflated property prices and a high current-account deficit. The strategy has undermined many of the country's poorly capitalised finance companies.

The Thai authorities have championed the idea of mergers bringing together healthy and troubled institutions that would then apply for a new banking licence. The authorities believe such mergers would rule out the need for central bank emergency support and government guarantees for ailing companies.

Mr Rerngchai Marakanond, governor of the Bank of Thailand, said: "Our main objective is to speed up the merger and acquisition procedures. It is not our intention to force them to merge." He added that he expected four or five consortiums to merge and apply for a banking licence.

Yesterday's decrees resolve a number of difficulties encountered by companies which want to merge. The legislation makes it easier to transfer doubtful loan accounts, waives taxes and fees, and authorises cross-directorships. The decrees also bar creditors of merging finance companies from seeking court orders to stop proposed mergers.

Analysts said the measures should facilitate the merger process. But many were dismayed that the finance minister and central bank governor were not given the power to let ailing companies fail if they refused to merge. Many companies are reluctant to merge as it exposes their level of bad debt to a due diligence process.

One of the decrees allows foreigners to hold more than the current limit of 25 per cent of commercial banks and finance companies. The restrictions will be waived on a case-by-case basis only for new commercial banks that are created through mergers between troubled finance companies.

Most foreigners who have expressed interest in taking large stakes in Thai commercial banks or finance companies have wanted to purchase existing institutions whose problems are not grave.

THE LEX COLUMN

Huffing and bluffing

Mr Ryutaro Hashimoto, Japan's prime minister, has a reputation of leading with his lip. Not-so-subtle threats to US markets were part of his armoury as trade negotiator. Still, now as then, it is a safe assumption that he is not seriously threatening large-scale Japanese government selling of US bonds. Few countries would suffer more from a meltdown in US asset markets and the dollar. A strong yen would kill off export growth, the one area of strength in an otherwise weak economy – as today's Tankan report is likely to confirm.

Nevertheless, his comments illustrate Japan's frustration at US behaviour. Elected with a mandate to improve government finances, Mr Hashimoto is doing exactly that. Yet the US is urging him to abandon austerity for the sort of fiscal reflation which it is so determined itself to avoid. Of course, this approach has everything to do with domestic politics, and little to do with economics. The Clinton administration is talking tough with Japan in order to cover its flank against protectionist critics. But forecasts that the 1998 bilateral deficit will match the record $130bn in 1993 have left it looking vulnerable.

Short-term tensions will be fuelled by a further widening of the deficit. But this will simply reflect the combination of a weak yen and subdued demand – trends already partly arrested. And given the dubious mix of mercantilism and domestic politics which underpins US demands, they deserve to be taken with a large pinch of salt.

US oil stocks

There is more than one way to drill for oil in Texas. Union Pacific Resources' hostile $6.4bn bid for Pennzoil shows it thinks snapping up a rival exploration and production (E&P) company on the stock-market will be cheaper than squeezing the black stuff out of the ground.

With little in the way of debt, UPR certainly has to find a home for its cash flow, boosted by two years of robust oil and gas prices. In Pennzoil it has found a target with a chequered history and a lacklustre share price. While Pennzoil has lavished capital on high-risk international exploration and its motor oil arm, UPR has single-mindedly exploited its US assets. Though it has only half as many large oil and gas fields as Pennzoil, it has eight times as many drill rigs on them. UPR's more aggressive management promises to raise production at the enlarged group, thereby lowering unit costs and boosting cash flow. Pennzoil is hardly in a position to contest the logic behind a merger, since it first proposed the idea in 1995 when UPR was still part of the Union Pacific railroad. Nor can it quibble with the price. At 10 times next year's cash flow, against a sector average of eight times, UPR is overpaying if anything. Nevertheless, given Pennzoil's array of poison pill defences and the possibility that a big, integrated oil company might be attracted to the fray, this could be just the first episode in something straight out of *Dallas*.

Eni

Miss an Eni offering and you can at least be pretty confident another one will be along in a minute. Even after the third such exercise in just a couple of years, more than half the shares will still be waiting to be drip-fed to the market. And investors must be asking themselves whether such a relentlessly marketed commodity can retain its attractions – especially now the company's big restructuring phase is behind it.

Surprisingly, the answer is yes. At a 15 per cent discount to the average US/UK oil major price/earnings multiple for 1998, and a 20 per cent discount to the same group on cashflow (enterprise value to earnings before interest and depreciation), Eni shares remain attractively priced. Of course, some discount is merited. One reason is political risk: although many investors are rightly enchanted with Mr Franco Bernabe, Eni's shareholder-minded managing director, Italian political shenanigans can never be entirely ruled out. A second, perversely, is the persistently high monopoly return in Eni's domestic gas business – at the back of investors' minds lurks the knowledge that free lunches rarely last for ever. But if anything, the competitive threat is receding. And in the meantime, the security of Eni's gas earnings looks rather an attractive defensive quality. With strong upstream growth in the pipeline and a management intelligently focused on achieving a broader geographic spread, the stock merits (yet) another look.

UK equities

Would cutting or abolishing Britain's dividend tax credit necessarily savage share prices? Lex has argued that it probably would, but a seductive contrary argument is doing the rounds. It works like this. Everyone can agree that a cut in tax-exempt institutions' tax credits would reduce the value of their dividend flow from UK equities. But, say the optimists, so what? After all, international investors have been gaily buying UK equities at prices which predate the recent dividend credit cut fears. So even if the Budget caused tax-exempt institutions to sell, investors elsewhere would presumably spot a fresh buying opportunity, and perhaps all would be well.

Plainly there is something in this. It is a truism that a fall in the price of UK equities would make them more attractive to international investors, who are unlikely to be affected by any tax change. Furthermore, UK companies could logically look tastier takeover targets to international predators.

But these consoling thoughts need to be kept in proportion. For one thing, the optimists' argument ignores the real hit to profits at some UK companies resulting from the fall in the actuarial value of their pension funds. More fundamentally, it overlooks the imbalance of power between tax-exempt UK investors (owning roughly half the UK market) and international investors (holding less than 20 per cent). The optimists simply do not have the weight of money on their side.

Additional Lex comment on digital TV, Page 22

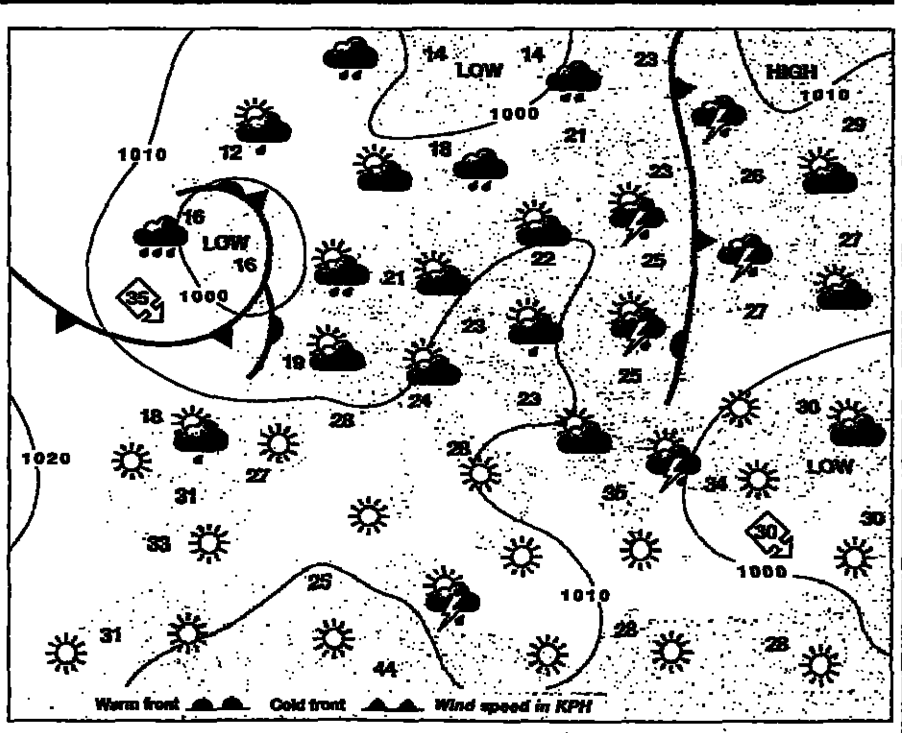
FT WEATHER GUIDE

Europe today

Rain, cloud and wind are expected over the British Isles as a disturbance arrives from the Atlantic. Northern France and the Benelux will also have rain and showers but southern France will have ample sunshine. The Iberian Peninsula will be sunny but showers are likely in the north-west. Northern Italy will have sunny periods but the south will be sunny. The Balkans will have sunny periods with some showers. Eastern Romania, the Ukraine and Central Russia will have rain and thunder showers. Eastern Russia will be partly cloudy and mainly dry.

Five-day forecast

A disturbance over the UK will continue to bring showers, wind and rain to western Europe. The western Mediterranean will have increased cloud and showers but the eastern Mediterranean will continue fair. High pressure will bring more settled conditions to eastern Europe.



TODAY'S TEMPERATURES *Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands*

	Maximum		Beijing	fair	31	Caracas	fair	31
	Celsius		Belfast	shower	17	Cardiff	rain	15
Abu Dhabi	sun	40	Belgrade	cloudy	23	Casablanca	fair	24
Accra	thund	30	Berlin	fair	18	Chicago	thund	30
Algiers	sun	25	Bermuda	fair	28	Cologne	shower	19
Amsterdam	cloudy	19	Bogota	shower	18	Dakar	fair	30
Athens	fair	31	Bombay	shower	31	Dallas	sun	35
Atlanta	fair	34	Brussels	shower	17	Delhi	fair	32
B. Aires	rain	11	Budapest	fair	21	Dubai	sun	40
B.ham	rain	12	C.hagen	fair	16	Dublin	rain	16
Bangkok	thund	37	Cairo	sun	35	Dubrovnik	fair	25
Barcelona	sun	24	Cape Town	shower	16	Edinburgh	rain	13

Faro	sun	26	Madrid	sun	31	Rangoon	shower	30
Frankfurt	fair	20	Majorca	sun	28	Reykjavik	sun	13
Geneva	fair	23	Malta	sun	26	Rio	fair	31
Gibraltar	sun	28	Manchester	rain	15	Rome	fair	27
Glasgow	cloudy	15	Manila	rain	35	S. Frisco	sun	23
Hamburg	shower	17	Melbourne	shower	12	Seoul	rain	31
Helsinki	rain	17	Mexico City	cloudy	25	Singapore	fair	32
Hong Kong	shower	28	Miami	fair	31	Stockholm	cloudy	19
Honolulu	fair	31	Milan	fair	22	Strasbourg	shower	21
Istanbul	sun	27	Montreal	shower	31	Sydney	shower	15
Jakarta	fair	31	Moscow	thund	23	Tangier	sun	27
Jersey	shower	15	Munich	shower	15	Tel Aviv	sun	31
Karachi	fair	37	Nairobi	fair	22	Tokyo	shower	27
Kuwait	fair	45	Naples	sun	28	Toronto	thund	31
L. Angeles	sun	25	Nassau	fair	31	Vancouver	rain	22
Las Palmas	fair	25	New York	sun	34	Venice	fair	22
Lima	sun	25	Nice	sun	26	Vienna	cloudy	22
Lisbon	sun	24	Nicosia	sun	31	Warsaw	fair	18
London	rain	17	Oslo	cloudy	18	Washington	sun	35
Luxbourg	shower	17	Paris	rain	19	Wellington	fair	12
Lyon	shower	24	Perth	fair	21	Winnipeg	fair	23
Madeira	cloudy	22	Prague	fair	19	Zurich	fair	19

TRANSPORT AND INFRASTRUCTURE • by Anatol Lieven

International funds to pave the way for trade

Road links to western Europe are vital to securing much sought entry to the EU

The poor state of Romania's transport network, and the truly dreadful state of its roads, have been a critical weakness since the 1989 revolution, and has held back development in every field from grain exports to tourism.

Romanian transport ministry officials say that no less than two thirds of Romania's 9,000 miles of roads need immediate repair – which they will be very lucky to get.

Overall, they estimate that up to the year 2005, Romania will need some $30bn to upgrade its road, rail, sea and air networks. This estimate presumably did not include changes to the driving habits of Romanian drivers. The government suffered a blow to its road-financing plans in April, when it was forced to severely reduce a planned road tax in the face of public protest.

Nothing like $30bn is going to be available, but with the help of international loans, Romania has made a determined start on upgrading some crucial road links and transport hubs.

Mr Traian Basescu, the transport minister has admitted that much urgently-needed construction will have to wait until the next century, and that "our priority is to upgrade roads heading to Western countries. Romania cannot integrate into the European Union without an acceptable infrastructure."

The development of roads is also of political importance, because, in the words of a Western diplomat, "the pain caused to the population by reform has to be seen to be yielding some concrete results, and soon."

The EBRD last year loaned Romania $47m to upgrade the motorway from Bucharest to the key industrial city of Pitesti. This covers a distance of only 120km, but in future the government hopes to extend it to the Hungarian border via Arad to link up with Western Europe.

The Pitesti-Bucharest project is now *being put out to tender*. The rest of the route is to be financed by the EBRD, Phare and the World Bank, but is still at the planning stage. Phare has also given Ecu53m for railway improvement.

The Pitesti-Bucharest road will be subject to a toll, the profits from which will go towards the construction of a motorway from Bucharest to the port of Constanta which was begun under Ceausescu and then abandoned. The Japanese government in March announced that one third of a $150m loan to Romania would be devoted to this motorway.

The rest of the Japanese loan will go to improving the port of Constanta, one of the largest on the Black Sea, and the terminus for barge traffic coming down the Danube.

The Japanese are helping to build a container *terminal, while* Phare has committed Ecu70m to build a breakwater to protect it. The existing one was badly damaged in a storm last year.

The Romanians for their part are finishing a giant grain silo; since at present unusually high grain exports from Constanta require the hiring of special floating equipment from abroad.

For the longer term, Romania has great hopes of being a hub for transport and trade. The country lies on the line of three out of seven planned "Pan-European Routes". It sees itself as a transit point in European trade to Ukraine, Russia, the Transcaucasus, Central Asia and the Middle East.

They hope to be a source of exports, above all of food and cheap manufactured products to the food-deficit areas of Azerbaijan and Central Asia.

As their huge reserves of oil and gas come on stream, and their populations grow, these may be one of the great new markets of the 21st Century.

The government is also about to launch a publicity drive in the West to gain support for making Romania the route for the shipment of oil and gas from the Caspian region to markets in the West, whether from tankers across the Black Sea to the Caspian, or via the existing "Druzhba" pipeline network across Ukraine.

With the narrow Bosphorus increasingly overburdened with shipping, and the proposed Russian and Turkish land routes bedevilled by political instability and geo-political rivalry, they reckon that Romania could be seen as the safest as well as the most direct route to Western Europe.

"Unfortunately, we have only lately become in a position to put ourselves on the international map.

Most maps so far haven't even included Romania. So we need some simple salesmanship, just to tell people what is already available here, and what the opportunities are," says Mr Sergiu Celac, the ambassador of the foreign ministry planning staff.

AGRICULTURE • by Anatol Lieven

Urgent need for reform

Wheat harvests may be prolific but the legacy of communism is hard to shake

With the largest agricultural area in eastern Europe after Poland, and soil which is among the most fertile in Europe, Romania this year *expects a bumper wheat harvest* of more than 7m tonnes, 2.5m tonnes of which will be exported.

The sector is of critical importance to Romania's economy and population, and also has great potential. Historically, however, it has been hampered by the poverty and backwardness of the peasantry, and their lack of money for inputs and improvements.

Added to this in recent decades have been the baleful effects of communist collectivisation and centralisation. But escaping this legacy is not proving easy, especially, as Romanian officials admit, the numbers employed in agriculture will *have to be reduced if* Romania is to move towards membership of the European Union.

More than 30 per cent of Romania's workforce is employed directly or indirectly in agriculture.

Agricultural reform began under the previous administration, with the distribution of around 83 per cent of land to individual peasant farmers but the greater part of agricultural equipment remained in the hands of the state farms.

The new government is now moving to privatise, break up, or liquidate these, beginning with the most heavily indebted.

Extra budgetary state credits to agriculture rose steeply in the run-up to last November's elections, and were a key factor in the *deterioration of Romania's budget* deficit. The elimination of the system of directed credits was a key condition attached by both the IMF and World Bank to the resumption of lending to Romania.

The 74 state farms received the overwhelming share of these credits, and the biggest guzzlers of both subsidies and grain have been those in the pig and poultry sector. So far 20 have been listed for liquidation or privatisation.

The government says that of these, five have been wound up, with their land, animals and equipment sold by auction, and five more are in the process of privatisation, though international financial officials say that the process is moving rather more slowly.

Mr Victor Ciorbea, the prime minister, and Mr Dinu Gavrilescu, the agriculture minister, have pledged to withdraw the state completely from agricultural ownership.

To support Romanian agriculture during its transition to the market, and to ensure the collection and sale of this year's harvest, the World Bank has made a structural adjustment loan (Asal) of $350m.

Apart from the ending of directed credits, this was tied to liberalisation of trade in food and the land market, and the eventual privatisation of all agricultural enterprises. The bank's officials say that they are *satisfied*.

With World Bank help, the government is distributing an earmarked fund of 1.4 trillion (million million) lei to farmers, or 20,000 lei per hectare. This should be around what they need to carry out the autumn sowing. It comes in the form of vouchers to individual farmers to buy equipment, fertilisers and pesticides.

The shortfall in these areas is great among the new peasant farmers, now that old highly mechanised state cereal farms have been mostly broken up.

Last year, according to official estimates, only one-third of farmers used considerable amounts of fertiliser, and only around 70 per cent used motorised equipment, with the rest still relying on horses or oxen.

One of the most difficult inheritances from communism has been the system of centralised and monopolised collection and marketing. Breaking this up without disrupting the whole agricultural process is proving extremely difficult.

The old collection monopoly, Romcereal, has been divided into 41 joint stock companies, which the government plans to privatise by the end of 1998. The National Agency for Agricultural Produce (Anpa) retains control, pending privatisation, of the strategic silos along the Danube and at the Black Sea port of Constanta.

To help bring in the harvest, one plan put forward from within the Agriculture Ministry has been for a revolving loan of between 800bn lei and 1.2 trillion lei, distributed to private farmers through the commercial banks and repayable at low interest rates within one year. This has been opposed by World Bank officials, who fear that it would become a system of extra-budgetary subsidies under another name.

The bank has agreed that government financial help with the harvest may be raised from 500bn lei to 1 trillion lei. It is asking that the extra funds should be allocated to improve storage facilities, because in the past huge amounts of grain have been lost through poor storage.

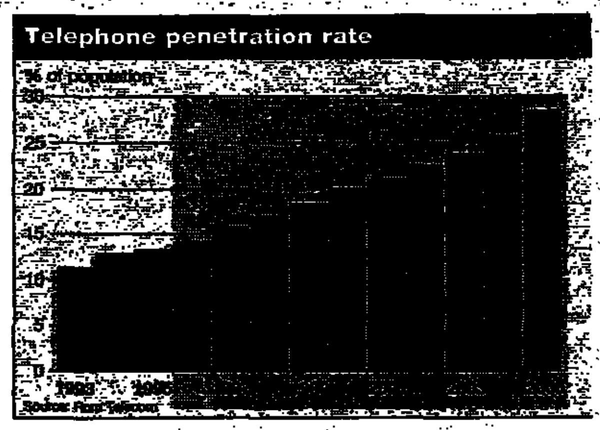
"From the point of view of wheat harvesting and our place on world grain markets, Romania has been a tiger, but one that only roars occasionally. To make us roar every year, we need technical progress and deep reforms," says Mr Gavrilescu.

TELECOMMUNICATIONS • by Kevin Done

A signal for new investors

Networks are being expanded but mass access to telephones is some way off

Telephone penetration rate



Source: Rom Telecom

Telecommunications in Romania are among the least developed in central Europe but the sector is undergoing dramatic change *and is set to be the focus for* the biggest foreign investments yet undertaken in the country.

In recent weeks two national GSM mobile telephone networks have begun operations with majority foreign shareholders, and plans are moving forward quickly for the first stage of the privatisation of Rom Telecom, the state-owned telecommunications utility.

The government is proposing to sell an initial stake of 30 per cent in Rom Telecom to a foreign strategic investor with an additional stake of between 3 and 5 per cent to be made available to employees, says Mr Sorin Pantis, Communications Minister. The aim is to complete this first phase "no later than the first quarter of 1998," he says.

In a second stage to follow "probably in one-and-a-half to two years" the government is planning to privatise the rest of the shares through a public offering to both international and domestic investors with the state maintaining only one golden share, he says. The strategic investor could raise its stake to a majority "but only through the market".

The privatisation of Rom Telecom will be a landmark deal for Romania, with the sale of the first stake alone expected to raise around $1.5bn according to preliminary *estimates made* by western investment bankers. "Rom Telecom is the cherry in the cake, and at the same time it is a signal that investors can come to Romania, that they will have better and better infrastructure," says Mr Pantis.

Many of the world's leading investment banks are currently battling to win the mandate to become the Romanian government's financial, legal and technical adviser for the selection of the strategic investor for Rom Telecom.

Initially 36 banks entered the contest. Ten bidders, individual banks including Credit Suisse First Boston, Goldman Sachs, J P Morgan, Lazards, Merrill Lynch and Morgan Stanley, and consortia comprising ABN Amro and N M Rothschild, Lehman Brothers and L C F Rothschild, SBC Warburg and Investmentbank Austria, and Union Bank of Switzerland with Creditanstalt Investment Bank have made it to the shortlist.

The winner will be announced "not later than July 15", and will be expected to start work at the beginning of August.

"I like to act not only as the Minister but also as the manager of the system, and I like to keep to a timetable very strictly," says Mr Pantis.

The strategic investor in Rom Telecom will have to meet a heavy investment commitment, if the utility is to be developed, as the government hopes, into one of *leading telecommunications* forces in central Europe and the Balkans. Mr Pantis is also aiming to gain a role for Rom Telecom in the planned privatisation of the neighbouring utilities in both Bulgaria and Moldova.

The selected strategic investor will have to move quickly, as the government is planning to issue an exclusive licence only until the end of 2002, before it opens the market for basic telephony in 2003.

At present the network is underdeveloped with a penetration of only around 14 lines per 100 of the population. In rural areas the penetration rate is as low as 3 to 4 per cent though it reaches 20 per cent in some urban areas. Mr Pantis says that the government has set the target of reaching an overall 30-35 per cent penetration *level by 2002 with* investments planned to total around $5bn in the six years from 1997.

Of the existing 3.1m lines only 1m are digital, and with the majority still manually switched analogue lines the standard of service is low with a failure rate of around 40 per cent. For domestic subscribers there is still a three-and-a-half year waiting list for a new line.

The investment tempo is already being raised, however, ahead of the planned privatisation with 500,000 lines to be installed this year compared with only 163,000 achieved in 1996. Rom Telecom is planning to invest around $400m this year helped by foreign borrowing including loans from the European Bank for Reconstruction and Development and the European Investment Bank.

According to Mr Pantis a loan of around $100m is under discussion with the EBRD, while Rom Telecom is also negotiating its first international capital market issue. "We don't have time for a bond issue, it will probably be a syndicated loan. We need this money from September and are currently in discussions with ABN Amro, ING Bank and Merrill Lynch."

While the local networks are still in poor shape, Rom Telecom has made good progress in building the trunk network and by spring next year a backbone system of 7,000kms of fibre optic cable should be in use linking *all main* centres.

The tariff structure is being revised as part of the government's tough actions to liberalise prices, and telephone charges have already been raised twice this year by 15 per cent in real terms in February and again by 25 per cent in real terms last month. The first steps are also being taken to establish an independent regulatory body, that will monitor the new tariff structure.

Utilities join AT&T in marketing link

By Christopher Parkes in Los Angeles

The age of the single monthly utilities bill – bundling together charges for all in-home services – moved closer yesterday with the announcement of a national marketing alliance between two regional US power groups and AT&T, the leading long-distance telephone group.

The link, prompted by fast-moving deregulation of the US electricity industry, is the first national marketing effort of its kind. It will offer consumers and participating utilities centralised marketing and billing services for electricity, gas, telephone, internet and electronic security-alarm services.

All will be provided under the EnergyOne brand, the name of a 50:50 joint venture between UtiliCorp United of Kansas City and Peco of Philadelphia.

AT&T will contribute an integrated national call centre and billing system.

The telecoms group will gain access to the founding partners' 3.4m customers and a boost to its efforts to penetrate local phone markets.

EnergyOne said it expected its customer base to grow ten-fold over the next three years as more regional utilities signed up.

The new venture aims to franchise its name and services to utilities confronted by the challenges of the introduction of a free market in electricity and the already-established large specialist power groups.

Enron, for example, has in the past year stepped up national promotional efforts – even in markets where monopoly rules still apply – to establish its brand name.

EnergyOne franchisees would be well-placed to "stake a claim on the leading edge of an entirely new business category – integrated utility services," said Mr Andrew Guarriello, the venture's president and a former AT&T executive.

Financial benefits included lower infrastructural costs and cross-marketing opportunities, said Mr Hawk McIntosh, a utilities specialist with the Arthur Andersen consultancy.

Other benefits to AT&T, for example, include its plan to use the EnergyOne system to sell and service security systems provided by ADT, one of its existing joint-venture partners.

The group also has links with DirecTV, the Hughes Electronics satellite service.

According to Mr McIntosh, cable and satellite TV services would be logical additions to the array of services offered.

However, he said the main challenge to the venture would be establishing a workable centralised system for handling operations.

"Building a consumer service system is not a trivial task. Even when you are adding on to an established set-up it can take two or three years," he said.

Canadian banks set off on expansion trail

By Bernard Simon in Toronto

Royal Bank of Canada and Bank of Nova Scotia, Canada's first and fourth ranking banks, yesterday revealed ambitious expansion and diversification plans.

RBC has launched the most ambitious foray by a Canadian bank into insurance with talks to acquire London Life, the country's biggest seller of individual life policies.

London Life, 57 per cent owned by Trilon Financial, part of the Edper resources and financial services group, has a market value of about C$1.9bn (US$1.36bn).

Trilon confirmed the talks with RBC yesterday but declined to give further details. It said a deal would include an offer to minority shareholders.

Scotiabank unveiled a C$1.3bn friendly bid for National Trustco, a mid-sized deposit-taking and mortgage institution whose main strength is in south-west Ontario. Holders of 47 per cent of National's shares have agreed to tender their stock.

Scotiabank said the deal would increase its market share in retail banking, and expand its presence in investment management and other fiduciary businesses.

RBC is one of North America's biggest financial institutions with assets of C$251bn. London has assets under administration of C$33.3bn, with net income of C$38m in the first three months of 1997.

Mr John Cleghorn, RBC chief executive, has identified insurance as a "high potential" business on which the bank is eager to capitalise "as the North American population continues to age and moves from a borrowing to an investment cycle".

The two banks' initiatives reflect a number of recent trends in Canadian financial services, including a growing number of informal alliances between banks and insurers, and the gradual wilting of trust companies, previously one of the "four pillars" of the sector.

The banks' advance into insurance has up to now been held back by tight restrictions, notably on the exchange of customer data between their banking and insurance arms.

However, these curbs are being reviewed by a government-sponsored task force headed by Mr James Baillie, a Toronto lawyer. The group is due to report next year.

John Cleghorn: RBC identifies insurance as 'high potential' business Brendan Corr

Stroke drug trial suspended

By Daniel Green

The biotech sector suffered another blow yesterday with the suspension of the final stage trial of a stroke drug called Cerestat, made by Cambridge Neuroscience, of Massachusetts.

The company's shares fell 59 per cent to $3⅞ in early trade. They were trading at $14 as recently as February.

This failure follows that of another drug at a Massachusetts biotech company, AutoImmune, in April, and one at Celltech, of the UK, last month.

These and other failures have left the biotech sector lagging behind in both US and UK stock markets in recent months.

Mr Elkan Gamzu, chief executive of Cambridge Neuroscience, said that the Cerestat stroke trial had not been abandoned and that existing patients would be followed for the next three months.

The exact reason for the trial's suspension is secret, even from Mr Gamzu, so that the independence of further analysis is not compromised.

But he said that independent advisers had probably noticed some adverse side effect. The official reason for the suspension is that "interim analysis of data" had raised doubts over "the benefit-to-risk ratio of [the] drug treatment".

The data must have been borderline, otherwise another trial of the same drug for head injuries would also have been suspended, Mr Gamzu said.

Cerestat is being developed in conjunction with Boehringer Ingelheim, Germany's largest private pharmaceuticals company.

SB halts trials, Page 36

Strong demand for Qwest in first-day trading

By Richard Waters in New York

The soaring demand in the US for internet and other services that rely on high-capacity telecommunications networks contributed to an enthusiastic stock market reception yesterday for Qwest, which is building a national fibre-optic network from scratch.

The demand prompted shares in the company to rise in early trading to $29¾, one-third higher than the offer price of $22, putting a value on the company of $2.9bn. By early afternoon, the shares had slipped back slightly to $27½.

The high stock market valuation for Qwest, which had revenues last year of only $231m, promises to make a rich man of Mr Joseph Nacchio, who until last autumn ran AT&T's core consumer long-distance business. Mr Nacchio left AT&T shortly after Mr John Walter was brought in from outside to run the company, and became chief executive of Qwest at the beginning of this year.

Under an agreement with Mr Philip Anschutz, Qwest chairman, Mr Nacchio received a $10.7m signing-on bonus and stands to benefit from 3 per cent of Qwest's market value in excess of $1bn – or more than $50m at yesterday's share price.

Mr Anschutz, a real estate and oil baron, controls the 86.5 per cent of the company not sold publicly yesterday.

Qwest is building a 13,000-mile long-distance network which will link 92 metropolitan areas in the US by the time it is completed at the end of next year.

By using the latest fibre-optic technology, the company predicts it will be able to operate and maintain its system more cheaply than rival networks, enabling it to undercut rivals on price.

Capacity on US telecommunications networks has expanded rapidly in the 1990s. Companies such as AT&T are spending large sums to raise the capacity of their existing systems.

But the warm stock market reception for Qwest indicates a belief that corporate use of the internet, along with video and other services over telephone lines, will continue to drive demand for ever broader bandwidth.

AMERICAS NEWS DIGEST

Oracle launches new product line

Oracle, the US leading database software company, yesterday launched a new line of products, including an updated version of its flagship database program. Oracle8 will enable the company to expand its share of the $5.7bn database management software market, which already stands at over 50 per cent, industry analysts said. Oracle also introduced new software for Network Computers, the low cost desktop devices that Oracle is promoting as an alternative to personal computers. Oracle sees the new products as a direct challenge to Microsoft, the leader in desk-top computer software.

The new products include NC Server software, which provides programs needed to set up a network of NCs, and a "Network-In-a-Box" system, comprising all of the hardware and software needed for five users on an NC network.

Oracle said it would launch its first television advertising campaign, a multi-million dollar effort aimed at raising awareness of the company and its products.

Louise Kehoe, San Francisco

Southam shares jump

Shares in Southam, Canada's biggest newspaper chain, jumped about 5 per cent yesterday as investors bet that Mr Conrad Black's Hollinger group would renew its quest for the 49.5 per cent of Southam it does not already own. Hollinger was rebuffed on Tuesday when holders of only 15 per cent of minority shares accepted its C$923m (US$664m) bid to take Southam private.

Southam shares rose C$1.25 to C$23.50 in early trading in Toronto. A committee of independent Southam directors valued Hollinger's offer, comprising cash and shares, at C$23.55-C$23.95 a share.

Mr Peter Atkinson, Hollinger's general counsel, said a new bid was "very unlikely in the reasonably foreseeable future". He added: "It's not the end of the world. We're not wringing our hands." Hollinger will take up the shares tendered to its offer.

Hollinger sought to take out the minorities partly to gain access to Southam's rising cash flow, and to give it more flexibility in running the Canadian company. Mr Black earlier took the UK's Telegraph group private.

Bernard Simon, Toronto

Suncor in Australian venture

Suncor, the Canadian oil producer, has announced a C$275m (US$197m) pilot project to develop Australia's oil shale, the company's first international venture in which it will export extraction technology developed for Alberta's oilsands. Suncor will join Southern Pacific Petroleum and Central Pacific Minerals to build a 4,500 barrels per day demonstration plant by 1999 in Queensland.

The plant could eventually become a full-scale commercial operation, producing 85,000 b/d after 10 years and rivalling in size Suncor's facility at Fort McMurray, Alberta.

Suncor will contribute C$244m to the Stuart oil shale project, of which C$148m will come from internal sources and the remainder will be in the form of a project financing loan from its partners. Suncor has worked for several years to adapt specialised technology developed for Alberta operations. Suncor, which will operate the Stuart plant, said it was seeking other projects to develop using its oilsands extraction expertise.

■ Husky Oil and Alberta Energy are planning a C$400m pipeline to meet growing demand for Alberta heavy oil. The 552km pipeline will carry 150,000 b/d of heavy oil from the oilsands regions in northern Alberta to a hub south-east of Edmonton. The pipeline is needed as producers increase output of heavy oil, seen as the last frontier in the Canadian energy sector.

Scott Morrison, Vancouver

Televisa finance chief quits

Mr Guillermo Cañedo White is understood to have resigned as chief financial officer at Televisa, the Mexican media group, following an executive coup led by members of the Azcárraga and Burillo families, the controlling shareholders at Televisa. Although the company would neither confirm nor deny Mr Cañedo White's departure yesterday, minority shareholders close to the boardroom battles said the resignation would be announced on Monday.

Televisa's shares were not affected yesterday, as traders said the management upheavals at the $4bn corporation had been already discounted. Televisa is understood to be searching for a new chief financial officer to replace Mr Cañedo White.

It was not known whether Mr Cañedo White and his brother Pablo had sold their 10 per cent stake in Televicentro, the company which controls 52 per cent of Televisa's voting stock, or whether they would retain their seats on the board of directors as part of the controlling group of Televisa shareholders.

Leslie Crawford, Mexico City

Top 10 international strategic investors

Company	Foreign partner	Country	Sector	Investment $m
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mobil Rom	France Telecom Mobiles	France	Telecom	61.2
[illegible]	[illegible]	[illegible]	Telecom	[illegible]
Daewoo Mangalia Heavy	Daewoo Heavy Industries	Korea	Automotive	53.0
[illegible]	[illegible]	Italy	[illegible]	[illegible]
Shell Petroleum NV	Shell	Netherlands	Oil	44.0
[illegible]	[illegible]	UK	Oil	[illegible]
Coca Cola Bucuresti	Coca Cola Amatil	Australia	Food & beverages	32.8
[illegible]	[illegible]	Netherlands	[illegible]	[illegible]
Metro Rom Invest	MSB Dealnmingen BV	Netherlands	Trade	28.6

Source: Romanian Development Agency

BANKING • by Kevin Done

Daunting tasks ahead

Poor liquidity and volatile prices mean this is no place for the faint-hearted

Privatisation of Romania's state-owned banks has long been on the agenda, but little has been achieved to date. Approval this spring of a banking privatisation law means that the process should finally begin this year, with the new government committed to privatising the first bank by the end of the year under the terms of its loan agreements with the International Monetary Fund and the World Bank.

A package of other banking legislation is set for early approval by parliament and will include measures to strengthen further the independence of the central bank, to create a clear framework for dealing with bank insolvency, and to strengthen banking supervision and regulation including the introduction of new accounting systems.

The present legal framework has severely hampered the central bank's ability to close down problem banks, a difficulty highlighted by the long-running sagas of Dacia Felix and Credit Bank, two of the country's biggest private banks. The central bank's move to withdraw their banking licences in April was immediately challenged in the courts.

The government's programme for accelerated privatisation combined with a new law on foreign investment, which defines for the first time the role of foreign portfolio investment, is set to allow the rapid development of the capital market. Poor liquidity, volatile prices and great scope for insider trading mean that Romania will not be a market for the faint-hearted.

The country has already been discovered by the more adventurous hedge funds, however, and trading volumes are rising quickly as more and more companies are listed either on the Bucharest stock exchange or on the less demanding Rasdaq over-the-counter market. A recent estimate by Creditanstalt Investment Bank of Austria suggests that funds to be invested in Romania by foreign portfolio investors will soon exceed $1bn.

Mr Victor Ciorbea, prime minister, insists that the way has been opened for foreign banks to take controlling stakes in the state-owned banks. "Foreign banks can buy more than 50 per cent of the shares of Romanian banks, there is no problem of any limitation. We are not following the slogan 'we are not selling our country'. We are welcoming foreign investment. It is the only way to overcome the crisis," he says.

The state-owned banks still dominate the sector accounting for around 70 per cent of the total assets of the banks led by the big four Bancorex (Banca Romana de Comert Exterior – the Romanian Foreign Trade Bank), Banca Comerciala Romana (Romanian Commercial Bank), Banca Agricola (Agricultural Bank) and Banca Romana pentru Dezvoltare (Romanian Development Bank).

According to Mr Ulm Spineanu, Minister for Reform, the first bank to be privatised will be the Romanian Development Bank to be followed early next year by Banc Post.

The new law allows the government to approach the privatisation of the state-owned banks case by case, but it does set down a general framework.

No foreign or local investor may acquire more than 20 per cent of the total capital of a state-owned bank with the exception of reputable international financial institutions, where no limit is specified in order to allow foreign strategic investors to acquire clear majority stakes.

At the same time any investor who proposes to acquire a stake of more than 5 per cent has to have the prior approval of the National Bank of Romania, the central bank.

The new law is flexible on how the stakes in the state banks are to be acquired, whether through the acquisition of existing shares held by the State Ownership Fund (SOF) or through the injection of new capital.

For each bank a special seven-member privatisation commission is to be established with members drawn from the SOF, the National Agency for Privatisation and from the central bank, who will advise the government. Crucially the law specifies that all the banks must be valued in accordance with international standards, and the international adviser must also submit a detailed privatisation proposal to the commission and the government.

The tender rules for the advisory contract for the privatisation of the Romanian Development Bank are expected to be released shortly.

Romania is still largely a cash-based society, and with the second largest population in central Europe after Poland there is "a tremendous growth opportunity for the financial services industry," says a recent report from Creditanstalt Investment Bank.

However, the problems facing strategic investors could be daunting. Many of the banks are undercapitalised, they carry a heavy burden of non-performing loans made to loss-making state-owned enterprises, and there is concern that some are holding significant foreign exchange liabilities following the steep devaluation of the Romanian currency since the start of the year and the liberalisation of the foreign exchange market.

ECONOMY • by Kevin Done

Shock therapy is prescribed

Finance minister must weather the storm as his tough reforms start to bite

Romania is paying a heavy price for its failure in the past seven years to tackle the formidable task of restructuring its distorted and antiquated industries and agriculture, and to reduce the mountains of inter-company arrears that block the financial arteries of the economy.

The centre-right government has embarked on a course of shock therapy aimed at bringing Romania belatedly into the group of fast-track reform countries of central Europe.

The immediate pain of liberalising the controlled benchmark prices that had led to much of the economic distortion has already been suffered in the past few months. Food prices have been freed, still controlled energy prices have been brought up to world market levels, and the overvalued exchange rate – clung to by the last regime in a desperate effort to subsidise imported energy for loss-making state industries – has been freed.

The impact has been harsh with inflation jumping to a peak monthly rate of 31 per cent in March, year-on-year inflation rose to 176.8 per cent in April, the lei, the Romanian currency, has plunged from around 4,000 lei to the US dollar at the end of last year to a low of around 9,000 lei before stabilising at just over 7,000 lei to the dollar.

Living standards have fallen by at least 20 per cent and the economy is expected to shrink overall with forecasts for a fall in gross domestic product varying between 1.5 per cent (the forecast of the International Monetary Fund) and as much as 4 per cent from some western banks.

The reform programme is being backed by the international financial institutions with close to $1bn committed by the IMF and the World Bank since April – conditional on the government carrying through on its promises for tough early actions to accelerate privatisation and to tackle the overdue tasks of restructuring (privatising or liquidating) loss-making enterprises in industry and agriculture and privatising the state-owned banks.

The programme has also received strong backing earlier this month in the international capital markets with Romania raising DM600m with a debut 5-year D-Mark eurobond issue. Foreign portfolio investors too appear eager to invest in the country's fledgling stock market with capital inflows growing quickly even before the new foreign investment law had officially opened the way to free repatriation of principal, dividends and capital gains.

The economic programme agreed with the IMF has set demanding targets for belt-tightening with the combined total of the general government deficit and quasi-fiscal subsidies supposed to be cut from 8.3 per cent of GDP in 1996 to only 3.7 per cent in 1997 according to the IMF. At the same time the deficit on the current account of the balance of payments is supposed to be reduced from 6.6 per cent of GDP last year to 4.5 per cent this year.

The immediate inflationary hump caused by the liberalisation of prices has been bigger than first forecast, and western officials and the Romanian authorities both now accept that the target for a year-on-year inflation rate of around 90 per cent in December this year is wildly unrealistic. The current forecast has been adjusted to between 135 and 145 per cent, but most importantly both the IMF and the central bank are in agreement that the monthly inflation rate is set to fall dramatically, as long as the current tight monetary and fiscal policies are adhered to.

Mr Mugur Isarescu, governor of the central bank, says that monthly inflation should fall to between two and three per cent in the final months of the year.

A recent economic research report from Nomura of Japan warned that "structural reform is perhaps the most important part of the government programme, but it also contains the greatest potential for slippage. Cutting refinancing to or closing loss-making industries and agricultural units is likely to lead to a substantial rise in unemployment and raise social tensions."

At the eye of the storm is Mr Mircea Ciumara, the tough, humorous finance minister, who insists that he is delivering measures to impose a harsh regime on the big, often loss-making, state enterprises, as he cuts subsidies.

"We block their accounts in the banks, and we take out the money that is owed to the government," he says. Such moves appear to be having some impact. Sidex, the giant Romanian steel company, for example, has decided to push as much as 90 per cent of its output in coming months into export markets instead of supplying domestic customers that do not pay their bills.

Mr Ciumara says that he is drawing up a monthly schedule for Sidex to pay off its tax debts. He warns that other companies such as Tarom, the Romanian state airlines, will get no more financing until they start to restructure.

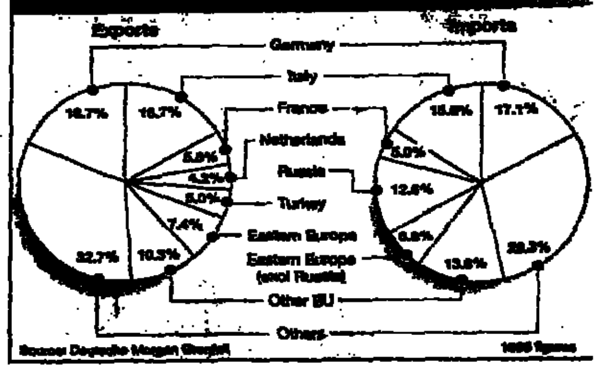
The pressures on Mr Ciumara can only grow, as the measures bite, but he insists, that "the prime task for a finance minister is to say 'No!'."

Economic summary

	1996	1997 (f)	1998 (f)
[illegible]	[illegible]	[illegible]	[illegible]
Real GDP (%)	4.5	-2.0	2.0
[illegible]	[illegible]	[illegible]	[illegible]
CPI (annual average, %)	39.0	80.0	25.0
[illegible]	[illegible]	[illegible]	[illegible]
Exports ($bn)	7.2	8.0	8.7
[illegible]	[illegible]	[illegible]	[illegible]
Current account (% of GDP)	-7.2	-6.2	-7.8
[illegible]	[illegible]	1.5	[illegible]
Import coverage (months)	1.1	2.0	2.4
[illegible]	[illegible]	1.0	[illegible]
Money supply (% change)	55.0	30.0	25.9
[illegible]	[illegible]	[illegible]	[illegible]

Sources: ABN-AMRO economics department; WIIW; OECD; EIU (f) forecast

Trade orientation



Source: Deutsche Morgan Grenfell 1996 figures

PROFILE City of Brasov

Tampa Mountain and the Carpathians form the backdrop to Brasov city's central square. A poor transport infrastructure has hampered tourism development Picture by Victor Must

A fascinating but unfulfilled outpost

Tourism potential is being squandered and heavy industry refuses to accept its fate

The Black Church in Brasov, in the northern foothills of the Carpathians, is the furthest outpost of medieval Gothic architecture in south-eastern Europe. Built by the German burghers of what was then called Kronstadt, it is adorned with ancient Muslim prayer rugs bought from the neighbouring Ottoman Turks.

It is a fascinating monument – but the last and only guide to it was published in 1988 and is full of references to "our Socialist fatherland".

The city of Brasov is beautiful in itself, and is surrounded by the magnificent scenery of the Carpathians; but as this example indicates, its tourism potential is woefully underdeveloped.

Under the previous administration of President Ion Iliescu, most of the tourism infrastructure of Brasov, as of other areas of Romania, was privatised by means of management-employee buy-outs (Mebos).

This has led to a monopoly situation where one company, Poiana Brasov, controls every hotel in Brasov district, and another, Postevarul, controls all but one of those in the city, as well as some of the best-situated restaurants.

The hotels are desperately in need of renovation, but neither company has any capital for this. In the words of a local manager, "foreign investment is absolutely essential if anything here is to move forward in the field of tourism, but unfortunately it is not valued as it should be."

This, and a weak road infrastructure has crippled development of foreign tourism in the region and most ordinary Romanians cannot afford a holiday. However, a small but flourishing network of bed and breakfast establishments, under the rubric of "ecotourism", is growing up in the villages, catering mainly to westerners based in Romania.

With other employment opportunities lacking, much of Brasov's population remains employed in a handful of giant and crumbling industrial plants. Only one of these, the helicopter manufacturer IAR Ghimbav, has so far found a buyer, having been sold to Bell Helicopters of the US.

And Ghimbav only employs around 2,000 workers. By contrast, the huge and troubled truck-maker Roman employs 13,800. That is already a steep reduction from its 1989 figure of 23,000 – but orders have fallen even more steeply, to only 115 trucks in the first three months of this year.

"There have been a few contacts with foreign companies, but so far only very preliminary and exploratory," says Lucian Stan, Roman's financial director, grimly.

"It is clear that such companies will never buy the whole factory. We are now drafting a plan of separating out the different sections, so that some of them can be sold more easily to foreign investors."

What will happen to the others – probably the large majority – hardly needs to be spelled out, but it is certainly not yet clear to Roman's workers.

Roman, together with another huge Brasov factory, Tractorul, are among Romania's most heavily-indebted state-owned plants, though neither has yet been put on a list for liquidation.

Roman last made a profit in 1993, and it now owes around 500bn lei. In April, when the state electricity company cut off supplies for non-payment of debt, a rumour swept the plant that closure was imminent. The workers went onto the streets, blocking the main road to Bucharest.

The government apparently then ordered the restoration of electricity and confirmed an order of 500 trucks for the Romanian army. Ministers strongly deny that this was a climb-down in the face of protests, but that is certainly the impression given to the people of Brasov.

Marius Stoienovici, editor of the local pro-government newspaper Buna Ziua says, "I simply do not believe that the government will ever have the courage to shut these plants."

He added however that this was hardly surprising, since he also did not know what on earth could be done with the workers who would be sacked if the factories should in the end have to close.

The Black Church: an outpost of medieval gothic architecture Picture by Victor Must

POLITICS • by Anatol Lieven

Threat from enemies within

Despite holding a strong mandate for reform, the coalition may self-destruct

The November elections in Romania left the new administration with a solid mandate for reform and a badly defeated and demoralised enemy. The Romanian Party of Social Democracy, the former ruling party and now by far the biggest opposition party, was reduced to 27 per cent of the parliamentary vote. Extreme nationalist parties also failed to do well, winning less than eight per cent. On June 6 and 9, the ruling coalition easily won votes of confidence in the Romanian parliament.

The coalition consists of three main elements, which between them control almost 60 per cent of parliamentary seats. Largest is the Democratic Convention, an alliance of centrist parties of which the largest is the National Peasants-Christian Democrat Party. This is a new version of a party which played a leading role in Romanian politics before 1948 and was banned by the Communists. It enjoys the support of many former Romanian dissidents, and both the president and prime minister belong to it. It gained 36 per cent of the seats in the lower house, and is supported by members of different social classes including many intellectuals.

Next in importance is the Social Democratic Union, of which the largest element is the Democratic Party (PD) of Mr Petre Roman, the former prime minister. Despite its official social democratic programme, this party enjoys the support of many businessmen, and is frequently somewhat to the right of the Peasants' Party on both economic questions and national issues.

The third element is the Hungarian Democratic Union of Romania (UDMR), which joined the coalition on the promise of concessions in the field of language rights and in particular education. This was a historic step, the first time since the creation of the greater Romanian state in 1919 that Romania's Hungarians had played a direct part in central government. The Hungarians are suspicious of Mr Roman, believing that when he was prime minister under Iliescu in 1990-91, he encouraged anti-Hungarian sentiment in order to rally support. However, they have developed a genuine respect for Mr Constantinescu.

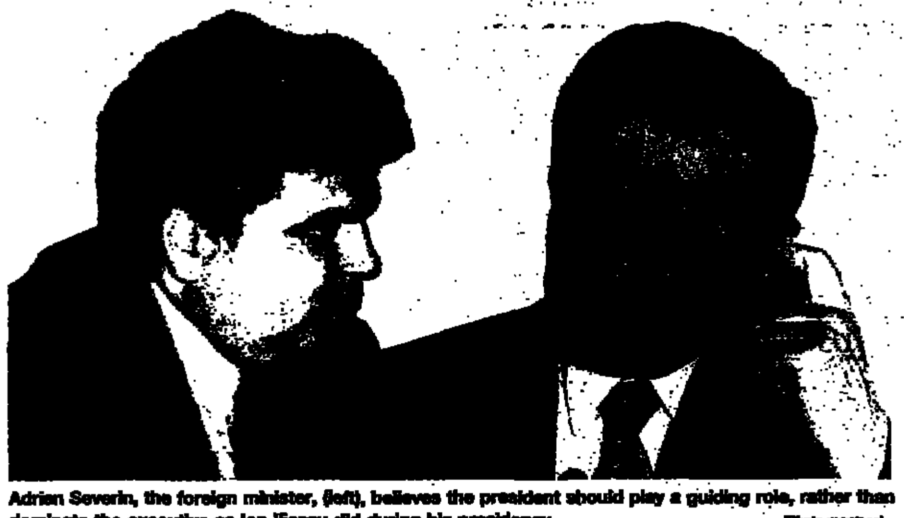
In private, members of the National Peasants and the PD make no pretence of much love for each other. Supporters of Mr Roman remain bitter that the former prime minister was defeated by Mr Constantinescu and Mr Ciorbea, novices in government. Mr Roman was relegated to the prestigious but much less powerful position of chairman of the senate. They like to sneer at the National Peasant ministers for alleged naivete and incompetence.

Supporters of Mr Constantinescu for their part have not forgotten the former alliance between Mr Roman and Mr Iliescu, nor the fact that Mr Roman was prime minister during the first attack of miners, mobilised by the then government, on student demonstrators in Bucharest in 1990, before he himself was ousted by those same miners the next year. They see the PD as a party of technocrats and businessmen from the former nomenclatura. So far, the rivalry between the two parties in the coalition has been limited to a discreet struggle for positions in the bureaucracy and the state economy.

In their veiled rivalry for domination of foreign policy, the two parties rely on two different interpretations of the Romanian constitution when it comes to the powers of the presidency. The Peasants say that Romania is like France, where the President has special powers to supervise foreign and defence policy – and that was certainly the role played by former President Iliescu. The PD argue for a strict interpretation of the constitution, whereby, according to the foreign minister Adrian Severin, "The President is supposed to guide developments, but he is not the head of the executive, he cannot deal with specific issues ... in foreign affairs, his tasks are specific and limited."

The assumption among most Romanian political commentators is that at some stage, the PD will wish to leave the coalition so as to run on a populist ticket in the next elections, criticising the hardships caused by reform. However, they also say that the PD would not wish to leave too early, because the government could probably continue as a minority in parliament, and the PD would risk being relegated to the sidelines.

As to the main opposition party, the PDSR, it looks for the moment like a spent force. At 67, it seems doubtful that its leader, former President Iliescu, will run again for president in the year 2000. The party is deeply divided between ex-Communist conservatives, reformers and would-be technocrats, and the eventual struggle to succeed him could tear it apart. Meanwhile, the main potential threats to the government probably come from unrest on the streets and in its own ranks.



Adrian Severin, the foreign minister, (left), believes the president should play a guiding role, rather than dominate the executive as Ion Iliescu did during his presidency (Photo montage)

DEFENCE AND FOREIGN POLICY • by Anatol Lieven

Quest to join Nato is paramount

Rejection by US hard to swallow after strong support from 'Latin' friends

Since the change of the government at the end of last year, Romanian foreign and defence policy has been overwhelmingly directed to the aim of joining Nato: Romania also wants to join the European Union, and will begin pre-accession talks soon.

The European Commission is engaged in drawing up "opinions" on the various applicants for membership. However, Romanians, recognise that given the state of the Romanian economy, EU membership is a more long-term goal than joining Nato.

The shock over the rejection of Romania by the US for the first round of Nato expansion was made all the greater because the Romanians had convinced themselves that they had a good chance of an invitation. France and Italy in particular have given strong support to Romania's admission, motivated by their "Latin" cultural affiliation to Romania, whose language derives from Latin roots, by a desire to balance the expansion of Nato to north-eastern Europe, and by American and German influence in that region.

Romanian diplomacy has shown a new sophistication in its campaign for membership. Rather than alleging a threat from Russia – something which tended to frighten off many American politicians – they have stressed Romania's contribution to regional stability and security.

President Emil Constantinescu declared that, "Romania doesn't threaten anyone and doesn't feel threatened by anyone. We don't ask anything of Nato, except to be allowed to contribute fully to European security." He added, rather bitterly, that, "it is obvious to us that Nato will not admit countries that need security, only those who bring it."

In the words of the foreign minister, Mr Adrian Severin, "We are desperate to develop a European architecture of security and stability. Of course we are thinking of our own interest, but our interest is in a broader frame."

In an effort to prove Romanian credentials in this regard, the Romanian government on June 2 signed a treaty with Ukraine, by which Romania finally recognised Ukrainian sovereignty over lands in Bessarabia and Bukovina ruled by Romania between 1919 and 1940, and taken by Stalin under the Molotov-Ribbentrop Pact. This was regarded by many Romanians as a considerable emotional sacrifice, and was accepted mainly because it was seen as another step towards membership.

One important dispute between Romania and Ukraine remains outstanding: the delimitation of economic zones in the Black Sea, in a region with possible reserves of oil and gas. However, both sides have pledged to resolve the issue within two years, or failing this, to accept the judgment judgement of the International Court at The Hague.

Of greater historical significance has been Romania's reconciliation with Hungary. Relations had been strained both by bitter memories and by disputes relating to the position of Romania's large Hungarian minority, whom extreme nationalist Romanians accuse of plotting secession. The previous Romanian administration of President Ion Iliescu took the first steps, signing a treaty with Hungary in August of last year.

However, it has been under Mr Constantinescu that relations have really improved, above all, because for the first time a party representing the Hungarian minority has joined a Romanian governing coalition.

The government has begun to implement concessions to the Hungarians, granting them increased rights to use their language in the education system and local administration. The Hungarian government for its part has become a strong advocate of Romanian admission to Nato.

Some fear that disappointment at Nato's expected snub, and anger that Hungary will have been admitted while Romania has not, may lead to an anti-Hungarian or even anti-Western backlash in Romania. The danger of this seems slight, however, as long as Romania is seen to on course for admission in a second round of new members, and Hungary has pledged to work for this.

Romania has made considerable efforts to reform her 200,000-strong armed forces to make them compatible with Nato, and has earned high praise from Western soldiers. Romanian units have served as peacekeepers in Bosnia and this year in Albania. Full civilian control has been established, and staff organisation and training completely reformed.

The only concern expressed by some Western financial experts has been over the possibility that Romania might over-spend on purchases of Western arms. Eyebrows were raised over the government's agreement to buy 96 AH-1W Supercobra attack helicopters from the Bell Helicopter company, in a deal that will reportedly be financed with the help of Merrill Lynch.

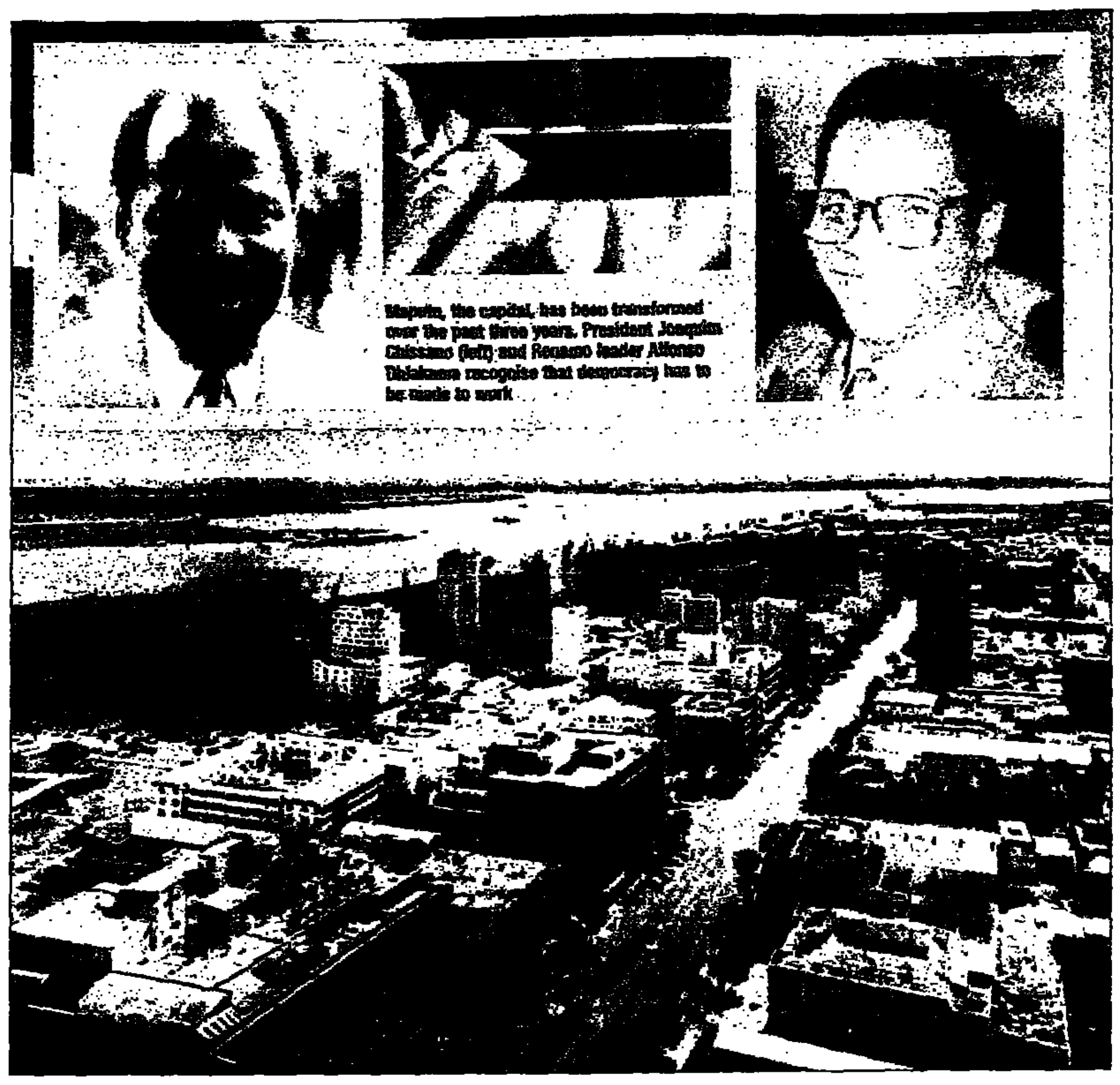
This was a key element in a deal whereby Bell agreed to buy and invest in the Romanian aircraft manufacturers IAR Ghimbav, where the helicopters are to be assembled. The General Electric engines are also to be produced in Romania, by Turbomecanica. The bill, however, will come in at more than \$1.5bn at a time when cutting government spending is also a key strategic priority. The government is also reported to be planning to buy up to 100 advanced Western fighter aircraft over the next few years, though no announcement has yet been made.

هكذا من الاصل

Mozambique

A remarkable economic U-turn by the formerly Marxist ruling party has set one of the world's poorest nations on the way to reform and reconstruction. **Roger Matthews** reports

Enthusiastic adoption of the free market



Maputo, the capital, has been transformed over the past three years. President Joaquim Chissano (left) and Renamo leader Afonso Dhlakama recognise that democracy has to be made to work

The ideological heroes of Mozambique's recent past are today nothing more than street names. The avenues of Lenin, Marx and Ho Chi Minh live on in Maputo, the capital, but the political and economic message they enshrined has been laid to rest along with the authors.

Mozambique, one of the world's poorest countries, is a nation in the throes of transformation. The process carries with it more than the future of 18m people. If successful, it will set an example to the rest of sub-Saharan Africa, and is already being held up by the World Bank and International Monetary Fund as a model of economic structural adjustment.

The new Mozambique is emerging from one of Africa's most disastrous experiences. "We are climbing up from the bottom of a very deep well," says President Joaquim Chissano. It was a well in part dug by the Portuguese, the former colonial power, in part by the Rhodesians and South Africans who crudely undermined the newly independent nation and fomented a 17-year civil war. And, in part, it was dug by Mozambique's new rulers who erroneously believed Marxism was the future.

The combined impact was literally devasting. War destroyed much of the country's infrastructure. Landmines still litter the countryside. Life expectancy at birth is less than 47 years. Millions live close to starvation. Some 60 per cent of all rural households, and 30 per cent of those in urban areas, have consumption levels below the poverty line. Health care across large swathes of this predominantly agricultural nation is minimal. Illiteracy is rife, and many children fail to receive the most basic education.

The long road back began with a peace accord and an ideological somersault. In 1992, Frelimo, the ruling party, and Renamo, which had been created and sustained by Rhodesia and white-ruled South Africa, agreed to end the conflict and establish democracy. Elections in 1994 legitimised Frelimo's role in government, and the party responded with a U-turn in economic policy which would have impressed even Baroness Thatcher, the former British prime minister. The old socialist dogma, which Frelimo had already begun to shed, was finally dumped and in its place came rampant free market policies.

"We felt it was no good to go just half way," says President Chissano. "Half measures were not for us. We wanted to see if this experiment would work, and did not want to risk failure because we had not gone the whole way. If the doctor prescribes medicine then you must take it, and not just part of the dose."

To treat such a desperately sick patient, President Chissano had no choice in practitioners other than the World Bank, the International Monetary Fund, and international donors. After five years of peace, Mozambique still needs external aid, before debt relief, of \$560m this year to cover more than two-thirds of its national budget. Total external financing requirements are put at \$5.5bn for 1997. Mozambique's accumulated public external debt is nearly four times its gross domestic product, and 13 times its exports. However impressive the current strides towards restructuring, the country will require external financial aid well into the next century.

These relatively early stages of rebirth may turn out to be the easiest. Starting from such a minimal base, each step forward tends to be measured against the past, rather than placed in the context of the huge task still ahead.

A degree of political stability has been achieved that was unthinkable at the turn of the decade. Parliament is functioning better than many expected. Frelimo has increasingly promoted younger, technologically capable members, and the Renamo leadership, while struggling to find an ideological niche, has generally distanced itself from the occasional threats of a return to conflict from its more excitable members. Local elections in the next nine months will provide a test of Mozambique's political development, while also starting the process of devolving power and giving Renamo a taste of regional administration.

Relative political peace at home has been further reinforced by peace with its neighbours. South Africa's transition to democratic rule in 1994 was most important for Mozambique. The economic fruits are already being felt, while the close friendship between President Nelson Mandela and Mrs Graca Machel, the widow of Mozambique's former president, has ensured a sympathetic ear in Pretoria for Mozambique's problems. Mrs Machel, who has declined marriage because she does not wish to change her name, is likely to be among the leading contenders for the Mozambique presidency should it become vacant.

More immediately, plans are well advanced for developing a privately-financed transport and industrial corridor linking Gauteng, South Africa's industrial heartland, with Maputo. This, in turn, is linked to several large-scale industrial projects in the Maputo area, while electricity exports from Cahora Bassa, which could be worth up to \$100m a year, will have a huge impact on Mozambique's balance of payments. Last year, the country's exports jumped 30 per cent, but still reached only \$225m.

Nothing has grabbed international attention more emphatically than Mozambique's embracing of privatisation. More than 700 state companies have so far been sold off, or restructured, and more are in the pipeline including the national airline. The agency responsible for the programme is already awaiting the day, perhaps next year, when it will have worked itself out of a job. Results have been mixed, in line with the potential of the enterprises. And although the disposals have done little to swell the state's coffers, the government saw little alternative in order to attract capital to kick-start industry.

The government mapped out the next stages of development in its presentation to the World Bank Consultative Group meeting in Paris last month. The predictable aim is to stimulate growth and thereby reduce dependence on external aid. Immediate targets are 5 per cent annual non-energy GDP growth over the next two years, a reduction in inflation from last year's 17 per cent to single digits, a substantial increase in domestic savings, an improvement in the efficiency of investment, and a cut in the budget deficit.

Reaching many of these targets will depend to a significant extent on the success the government enjoys in reforming the public service, which it admits lacks skills, is poorly paid, heavily bureaucratic, often corrupt, and always severely overloaded. Just how serious the problems can be was underlined when the Crown Agents, a British company which provides a range of services to governments and development agencies, was appointed to take over the entire customs service for the next three years.

The modernisation of the country's entire taxation system will be no less challenging, with the government pledged to introduce a value-added system during the course of next year.

Juggling so many requirements against the availability of skills is no less daunting than maintaining social cohesion as the impact of free-market policies begins increasingly to be felt. Visually, Maputo has been transformed in the past three years, with the arrival of expensive cars and the opening of restaurants emphasising the gulf between the few and the mass. An increase in crime, though nothing like in South Africa, has been a worrying accompaniment.

Geographically this division is repeated in the differences between the south, with Maputo at its hub, and the poorer central and northern regions which have yet to see significant change. Such disparities offer fertile ground for political exploitation unless Frelimo can ensure that its links with the grassroots remain strong.

The satisfaction expressed by the international community at Mozambique's progress should guarantee continued assistance, and there could be no more appropriate response to the strides taken by the government than writing off the rest of Mozambique's substantial foreign debt. But for that to happen, the government will have to pay close attention to the message which came from many of the speakers at last month's donors' meeting in Paris: "Well done, but there can be no slippage."

POLITICS • by Roger Matthews

External pressure to maintain democracy

Local elections are the next test for the fragile two-party system

The encouraging achievements of the past three years in laying the foundations for sustainable economic growth will count for little if the fragile political system cannot be simultaneously strengthened. When in 1992, the Frente de Libertacao de Mocambique (Frelimo) signed a peace accord with the Resistencia Nacional Mocambique (Renamo) there was little enough to build on, other than the tacit admission by both sides that a complete military victory was unattainable.

While deeply-rooted suspicions persist, it is now more than ever accepted by the country's two principal political forces that democracy has to be made to work. They well understand that any government will be heavily dependent on external financial assistance for at least the next decade, and aid is conditional on the popular legitimacy conferred by the ballot box.

But that is a far cry from suggesting that Mozambique is within sight of the day when democracy could deliver a peaceful transfer of political power at national level. The 1994 election results, challenged but reluctantly accepted by Renamo, would seem on the surface to have laid the basis for a viable two-party system. Frelimo took 44.3 per cent of the vote and Renamo 37.8 per cent. In the race for the presidency, Mr Joaquim Chissano, the Frelimo leader, achieved a more convincing 53.3 per cent against the 33.7 per cent cent secured by Mr Afonso Dhlakama of Renamo. Of the smaller parties, only the Uniao Democratica gained the 5 per cent necessary to win parliamentary representation.

The next important test is scheduled for late this year, or more probably during the first half of 1998, when local elections are held in the country's 23 main towns, and 10 other urban areas. Although Renamo has accused the government of selecting those areas which favoured Frelimo candidates, this ignores the fact that in cities such as Beira, Chimolo, Dondo, Nacala and Angoche, the opposition should win if results follow the 1994 pattern. Mr Dhlakama even says he is confident of doing well. "I think there are several provincial capitals that we can win, but the problem for us is that Frelimo is preparing to use fraudulent practices, just as it did in 1994," he says.

Mr Dhlakama cites a number of other alleged handicaps. "Our biggest problem is one of money. We were a party based in the bush, so we do not have access to funds. Here in Maputo I have just one telephone line to take calls from all the provinces, and from abroad. On the other hand, Frelimo has everything it wants and gets plenty of money from large companies." However, Renamo did receive substantial assistance from abroad to finance the 1994 election campaign, and can probably count on further help by an international community anxious to keep the party on the democratic path.

But what it cannot find at the moment is an ideology to distinguish it from Frelimo. Mr Dhlakama claims Renamo is the party of democracy and spent 16 years fighting for it. Mozambique now has democracy. He says Renamo is the party of free enterprise, but Frelimo has adopted possibly the most vigorous privatisation programme in Africa. Mr Dhlakama says he would seek foreign investment, but acknowledges money has again begun to flow in.

One consequence of this is that Renamo's electoral message will concentrate on what Mr Dhlakama sees as Frelimo's evil intentions. "They are trying to destroy the opposition. Like the rest of Africa, they see the opposition as the enemy," he says. "As Marxists, they do not understand democracy. So they try to provoke and marginalise us."

Despite this Mr Dhlakama believes his party could win a majority in the 1999 general election, a view that

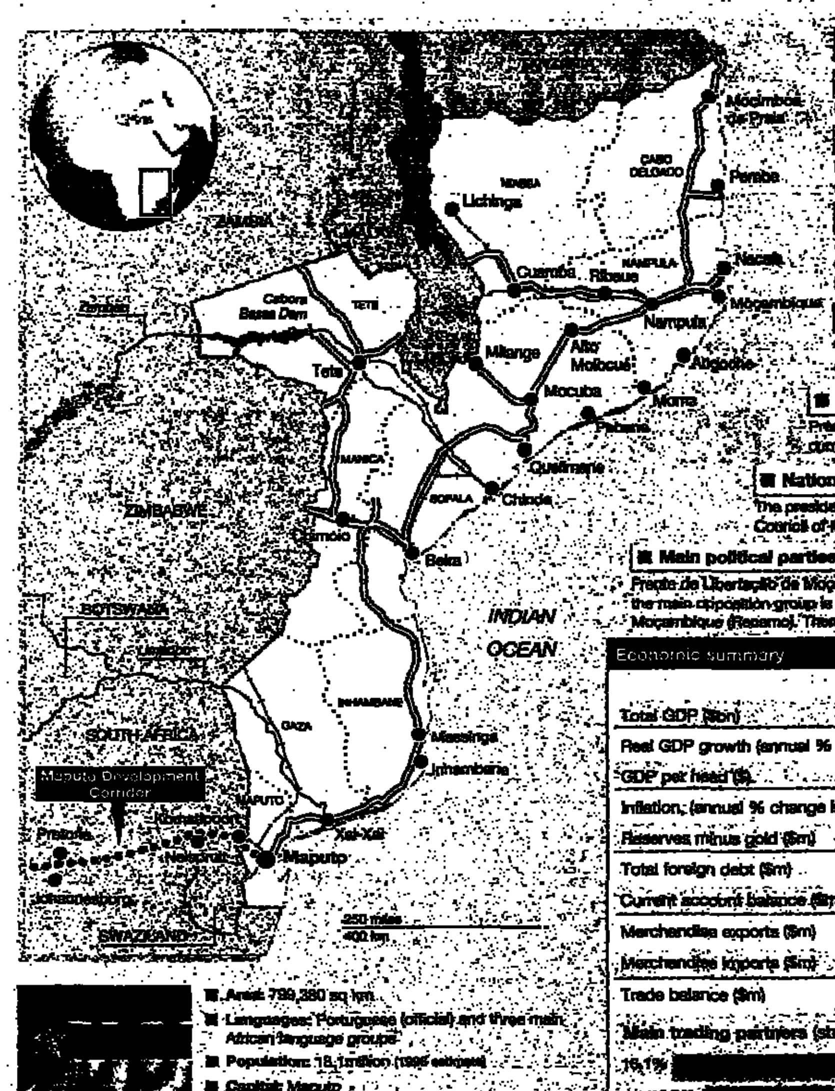
> It is accepted by the two principal political forces that democracy has to be made to work

finds little or no support among resident foreign diplomats. "A transfer of power, while theoretically possible of course, is just not a viable option," said one diplomat. "And given Renamo's violent history, together with its lack of able people, any real sign that it might come to power would probably have a very negative impact internationally."

President Chissano is, however, cautiously optimistic that Renamo is committed to the democratic process. "I would like to give an unqualified 'yes', but there are still some loopholes," he says. "The local elections are very important and I would like to be sure that serious people are elected who are capable of dealing with the very real problems of the people. If Renamo candidates are elected, and they are serious people who respect the role of central government, then there is no reason why we should not have good working relations with them."

Meanwhile he believes Frelimo is making progress in strengthening the party, especially at grassroots level. One of the main themes at last month's party congress was achieving greater unity at "ethnic, regional and national levels and on building competence". President Chissano says the party's militants are learning not to act as small units "but as citizens of the entire nation committed to the development of society. We must work towards solving problems by providing realistic leadership. When a child cries it is important to understand why, and sometimes to explain that it is not possible to provide exactly what it wants. We have to show them what the remedy is."

Whether all the tendencies within Frelimo accept the radical economic remedies chosen by the leadership is more debatable. The latest party congress scarcely discussed policy, choosing instead to refer it back to the central committee for further examination. However, diplomats in Maputo believe the party's Marxist rump is in retreat and will be further reduced in influence if the modest improvements in living standards are reflected in a larger Frelimo share of the vote in 1999.



■ Area: 799,380 sq km
■ Languages: Portuguese (official) and three main African language groups
■ Population: 18.1million (1996 estimate)
■ Capital: Maputo
■ Main towns and population: Beira, Quelimane
(Population figures are unreliable due to refugee influxes from rural war zones)
■ Currency: 1 Metical (Mt)=100 centavos
■ Exchange rate: 1996 average $1=Mt11,294; June 17 1997 $1=Mt11,225

Constitution

■ **Form of state**
Unitary republic
■ **Legal system**
Based on Portuguese/Roman law and the 1990 constitution
■ **National legislature**
250-member Assembleia Nacional (parliament) elected by direct, universal, adult suffrage every five years
■ **National elections**
October 1994; next legislative and presidential elections due by 1999
■ **Head of state**
President, chosen by direct universal suffrage; currently Joaquim Alberto Chissano
■ **National government**
The president and his appointed prime minister and Council of Ministers
■ **Main political parties**
Frente de Libertação de Moçambique (Frelimo) is the main and ruling party; the main opposition group is the former rebel Resistência Nacional de Moçambique (Renamo). There are a host of small parties

Economic summary

	1995	1996 (est)
Total GDP ($bn)	1.4	1.5
Real GDP growth (annual % change)	3.0	6.0
GDP per head ($)	80.2	76.4
Inflation, (annual % change in CPI)	40.0	16.0
Reserves minus gold ($m)	228.9	391.1
Total foreign debt ($m)	5,781	n.a.
Current account balance ($m)	-341	-382
Merchandise exports ($m)	174	226
Merchandise imports ($m)	727	802
Trade balance ($m)	-553	-576

Main trading partners (share of total trade to world, 1995)

Exports	Partner	Imports
16.1%	Spain	
13.3%	South Africa	44.2%
11.6%	US	
11.2%	Portugal	4.4%
	Zimbabwe	6.7%

Sources: EIU; Banco de Moçambique

PRIVATISATION • by Tony Hawkins

Encouragement for the entrepreneurs

The programme of sell-offs has improved finances and attracted investment

Mozambique vies with Zambia for Africa's most ambitious – and successful – privatisation programme. Seven years into the programme, some 740 enterprises have been "restructured", changing the face of the economy by raising output, productivity and efficiency levels and attracting substantial domestic and foreign investment.

The national privatisation agency, UTRE – the technical unit for enterprise restructuring - is responsible for restructuring 63 larger, economically important, parastatals. The sale of some 700 small and medium-sized businesses has been handled by the appropriate government departments.

UTRE has sold off some 40 large parastatals for just over $100m, creating 70 new privately-owned firms whose owners have promised to invest approximately $200m in the privatised companies. Most privatisations have been of small businesses, many of which were taken over by the state when their Portuguese owners fled the country at independence in the mid-1970s; over 90 per cent of the enterprises have been sold to Mozambican entrepreneurs and investors.

But roughly half the revenue generated from sales has come from foreign investors – the main buyers have come from Portugal, South Africa, the US and the UK.

Up to 20 per cent of the shares in the privatised firms have been reserved for eventual sale to management and employees. The state has also retained a minority stake in some privatised businesses for subsequent flotation when the stock exchange is established.

Two government studies of the impact of privatisation paint a generally positive picture, finding:

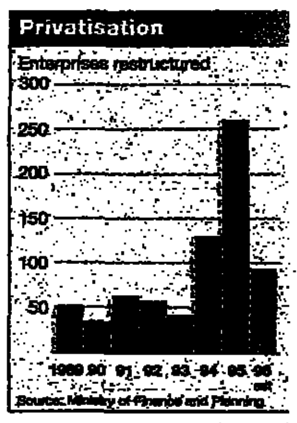
● improved performance by privatised firms - higher output, sales and employment
● an end to government subsidies
● healthier banks because of the repayment from the proceeds of privatisation of outstanding debts owed by state enterprises
● increased taxes paid by the private companies.

In 1995, when the turnover of the food, beverages and tobacco industries was estimated at $48m, newly privatised companies were responsible for 54 per cent of the total and two-thirds of the private sector's 87 per cent share. By last year, the public sector share had fallen from 13 per cent in 1995 to 4 per cent. And in the cement industry, the privatised Cimentos de Mocambique has more than doubled its market share since being sold off in 1995 to Cimpor of Portugal for $20m. It now accounts for some 80 per cent of national output of 230,000 tons a year.

A second study found that privatisation was responsible for only a small percentage of the decline in formal sector employment, while privatised firms employed younger and more qualified personnel. Just over a third of the employees believed the business had improved following privatisation, while 28 per cent saw no change. Improvement was most marked in firms taken over by foreign investors.

UTRE estimates that about a third of foreign direct investment in the past few years is attributable to privatisation. "The biggest challenge," says Mr Momade Juma, director of UTRE, "is ensuring that the new owners stick to the terms of the sale agreement and fulfil agreed investment plans." To date, only two companies, Morfeu mattress company and Fapam lacework, have been taken back by the state when the new owner failed to meet the agreed conditions of sale.

Privatisation



Source: Ministry of Finance and Planning

Government finances have benefited chiefly from the reduction in subsidies to loss-making parastatals, which in 1995 accounted for only 0.2 per cent of GDP, down from 1 per cent at the end of the 1980s. A substantial proportion of privatisation proceeds have been used to repay parastatal debt, while last August an initial MT15bn of privatisation proceeds was allocated to FARE (fund to support economic rehabilitation) designed to promote Mozambican entrepreneurship.

Mr Juma expects to have worked himself out of his UTRE job over the next year, by which time he hopes to have completed the privatisation of the larger enterprises. High profile sell-offs planned for 1997 include 51 per cent of the equity in the national carrier, Mozambique Airlines, the state-owned insurance company (Emose), two sugar plantations, and Empresa Nacional de Turismo, which owns hotels and tour operators.

Industry sources say that only one bid, spearheaded by Portugal's TAP, has been submitted for the national airline. Foreigners can bid only as part of a joint-venture with Mozambicans.

INDUSTRY • by Tony Hawkins

Building on the reforms

Recovery hopes are pinned on mineral processing and industrial zones

A quarter of a century ago, Mozambique ranked number seven in sub-Saharan Africa's industrialisation league table. Its small, but thriving industrial base, was an important contributor to employment, output and exports.

Twenty years of Soviet-style central planning and civil war put an end to all that, but peace, privatisation and economic reform have paved the way for slow industrial recovery.

Topack Mocambique is a classic example of a firm clawing its way back to profitability after being all but destroyed by its previous government owners. In September 1995, the Topack group, Europe's largest producer of plastic film, bought 80 per cent of the shares in one of the five units of the state-owned Emplama.

With a new investment of $1m in machines to manufacture plastic crates for beverages, Topack will have pumped some $5m into the business, including the $1m purchase price and some locally-funded borrowings. It look over a sprawling run-down complex in Maputo littered with plant and machinery some of which had never been worked because the necessary ancillary equipment and expertise simply did not exist.

The new management set about restoring, rehabilitating and rebuilding the factory. It now produces a broad range of products: plastic film for shopping packs, roof sheeting, plastic bottles, flasks and crates and plastic shoes.

In the first year of operation, turnover was some $800,000 on which the new owners made a small surplus, but if markets could be found, output could be increased sixfold. Topack expects to turnover $3.5m to $4m a year, employing 180 people, roughly the same as before privatisation.

Chief executive Joaquim Campos d'Oliveira runs a highly self-sufficient operation, that recycles waste materials, carries out its own rebuilding and rehabilitation programmes, and repairs its own vehicles. It doesn't pay to outsource in Mozambique he says, it is simply too expensive. The tiny Mozambique market and Topack's inability – as yet – to penetrate export markets, has forced it to produce a very broad range of products. The challenge, says Mr d'Oliveira, is to change the mindset – from the production-driven approach of the previous management to a market-focused one.

This is not easy given the small market and low level of skills, as well as the problems faced in competing against low cost, often smuggled imports.

Mozambique's return to the top ten African industrial countries depends largely on the success of the large minerals-processing projects and the planned industrial free zones.

While the country does not have competitive advantages in capital and knowledge-intensive modern manufacturing, Coca Cola says the quality of labour is such that its Mozambique operation is more productive than any other in Africa. The minimum wage for non-agricultural workers of $24 a month has risen less than 10 per cent in the last five years.

This combination of very low wages, willing but largely unskilled workers and proximity to the ports could pay off as an export processing zone strategy, encouraging South Africa or Zimbabwean firms to locate in the free zones planned for the Maputo, Beira and Nacala areas.

Manufacturing accounts for only 10 per cent of gross output, with more than half this being food processing and beverages.

Mining is insignificant at present but if a number of mining projects on the drawing board - Moatize coal, titanium, gold – take off, this could change early next century.

ECONOMY • by Tony Hawkins

Top priority for rural development

Foreign aid must be backed up by improved education and infrastructure

Although real growth of 6 per cent annually since 1990 marks a turning point for the Mozambique economy, it falls well short of what is necessary to recoup ground lost to war, political uncertainty and Marxist economics in the 1970s and 80s.

Peace and market-driven policies are starting to pay dividends, but in a country desperately short of savings and skills and needing massive investment to rebuild its economic and social infrastructure, the recovery is going to be painfully slow. Indeed, even if 6 per cent annual growth can be maintained for the next 20 years, GDP per head will still be no more than $200 a year and in 2015 Mozambique would be as poor a country as Uganda, Nepal or Vietnam are today. Whether such growth is possible is problematic since even if several of the mega-projects (see table below) in energy, minerals-processing and tourism do go ahead, Mozambique will still struggle to achieve Asian tiger growth rates. While the official figures suggest extraordinarily high levels of investment – averaging 60 per cent of GDP since 1990 – not only has this been dependent on massive foreign aid, but the impact on output has been no more than modest.

Real GDP growth of 6 per cent annually since 1990 implies a very large capital-output ratio in the region of 10, meaning that $10m must be invested to secure a $1m rise in output. This is double the norm for a sub-Saharan economy, reflecting the huge investment necessary to rebuild the infrastructure before the pay-off from private sector investment can be expected to take effect.

Unfortunately, this is only part of the story. Domestic savings levels are desperately low (though they have picked up in the last two years), forcing Mozambique into excessive dependence on foreign aid and private investment. Foreign grants financed more than half the country's imports during the first half of the 1990s, averaging $480m annually (about a third of GDP). Concessional loans have averaged more than $200m a year while debt relief has contributed a further $320m, making Mozambique - with $1bn of aid annually, the world's second most aid-dependent, as well as its second poorest, country. Aid accounted for no less than 96 per cent of GDP in 1994/95 Hard though it is to imagine, this was a marked improved on the 156 per cent dependence at the end of the 1980s. How long the donors will sustain these levels of assistance – more than $8bn since 1990 – is impossible to tell. For the moment, there are few signs of donor fatigue in Mozambique itself, largely because the peace process has worked and the government has stuck to the task of reform – privatising further and faster than any other African country – while restoring a measure of macroeconomic stability.

Private foreign direct investment is growing but at $73m last year, it accounts for less than one-tenth of the total aid inflow. Mozambique is well-placed to become one of the early beneficiaries of the HIPC (heavily indebted poor countries) debt initiative which will ease pressure on both the budget and the balance of payments, though not until 2000 and beyond.

Furthermore, the mega-projects would kickstart the economy by bringing in foreign capital and expertise and creating large numbers of jobs during the construction phase. They would also signal to a sceptical global business community that poor and undeveloped though it may be, Mozambique is worth a closer look as a potential investment location for energy intensive projects, for agribusiness and for manufacturing operations requiring industrious, willing, but mostly unskilled workers.

The World Bank and IMF can justifiably claim that their policy reforms are taking root. Inflation, which averaged 47 per cent between 1991 and 1995 slowed dramatically to 16.6 per cent last year and seems set to decline further this year. The year-on-year rate stayed in single figures for the first four months of the year, and with favourable seasonal influences over the next few months, inflation may well average less than 10 per cent in 1997.

Tight monetary policy has kept the lid on credit growth, with money supply expansion halving to 21 per cent last year, assisted by privatisation and net repayments to the banks by the public sector. Government spending was more closely controlled too, partly unavoidably so, reflecting reduced aid. But at 35 per cent of GDP (down from 38.4 per cent in 1995), and with revenue running at little more than half that, the fiscal deficit, before grants, is unsustainable at 17 per cent of GDP in 1996. Indeed, grants accounted for almost 12 per cent of GDP leaving the balance of the deficit to be funded from offshore borrowing of $154m.

The underlying balance of payments situation is on the mend with exports growing 20 per cent annually over the last three years to reach $226m in 1996. But with imports of more than $800m and a deficit on services of a further $90m, balance of payments solvency is also hugely dependent on substantial foreign assistance to close the current account gap of $665m – almost 40 per cent of GDP.

Foreign aid of $435m, foreign direct investment of $73m and unrecorded capital flows of a further $67m almost closed the gap, leaving an overall payments deficit of $90m, which was financed from debt relief of some $310m that allowed the Bank of Mozambique to build up its foreign reserves by $158m, raising import cover to 4.5 months. After plummeting from 1,000 Meticais to the dollar in 1990 to an average of 10,775 in 1995, the exchange rate has stabilised, depreciating a further 5 per cent last year before appreciating fractionally in the first five months of 1997.

The export base is both narrow and highly concentrated in fish and agricultural products. Prawns and other fish are the top export accounting for almost half the total in 1995 followed by cotton (12 per cent of the total) cashew nuts (9 per cent), timber, sugar and copra (14 per cent). However, this is set to change dramatically as exports more than double in the next five years; electricity exports from Cahora Bassa will lead the way, with forecast earnings of $100m annually from 1998, while gas revenues from the Pande project are expected to increase from $75m in 2000 to $200m by 2004. Early in the 21st century, aluminium sales from the proposed Mozal plant will replace prawns as the main merchandise export. Non-energy export volumes are forecast to grow 5 per cent annually in the next decade.

Understandably perhaps, policymakers, bankers and investors focus on the glamorous mega-projects, yet the real development challenge is far more mundane. It is about reviving agriculture, currently accounting for over a quarter of formal sector output, rehabilitating the infrastructure, and tackling the education crisis, without which there can be no sustained development.

While the giant projects will have hugely important spillovers – Mozal alone will create demand for 300 new homes for technical staff – they are all highly capital-intensive schemes reliant on foreign injections of investment, management and technical skills. Former finance minister Dr Majid Osman worries that preoccupation with such projects could take Mozambique down a Nigerian or Zairean enclave development path that would leave the rural poor marginalised. In a population of 18m, no more than 150,000 have formal sector jobs, 83 per cent rely on agriculture, two-thirds live in poverty, there is an illiteracy rate of 67 per cent among people over 15 years old, and only 7 per cent of the eligible age group attend secondary school and 54 per cent primary school. Consequently, rural development must have top priority. But the rural economy will not take off without substantial investment in infrastructure, especially rural roads, and more efficient marketing and credit mechanisms. Privatisation of the banking system will improve the flow of credit to agriculture, but farm-driven growth, vulnerable as it is to droughts and floods, and constrained by a rundown infrastructure and restricted access to credit, is unlikely to exceed 5 per cent a year.

Although Mozambicans are understandably reluctant to acknowledge it, their country's destiny is largely in the hands of others: the foreign companies without whom the large projects necessary to turn the balance of payments around are crucial, and the donors whose continued assistance is vital.

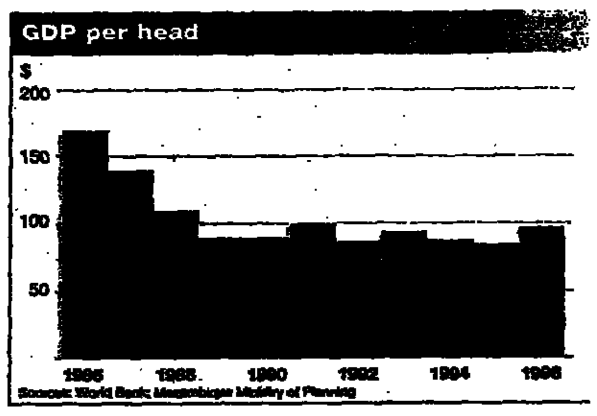
But no country can be developed from outside. Domestic savings must grow to reduce aid dependence. But most important of all will be education, training and capacity building. Unless this aspect is tackled far more vigorously and successfully, it will be the software of development rather than the hardware of mega-projects that holds the country back – condemning it to remain at the bottom of the development league table for many years to come.

Major projects under consideration

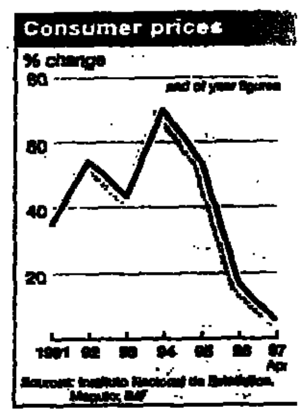
Project	Sponsors	Value* $bn
[illegible]	[illegible]	[illegible]
Moatize coking coal	JCI/CVRD(Brazil)	1.5
[illegible]	[illegible]	[illegible]
Pande Gas	Enron Corp (US)	1.0
[illegible]	[illegible]	[illegible]
Maputo corridor road	Mozambique/SA	0.8
[illegible]	[illegible]	[illegible]
Tigen mineral sands	Gencor (SA)	0.55
[illegible]	[illegible]	[illegible]

*Values no more than indicative. Source: Financial Mail, SA

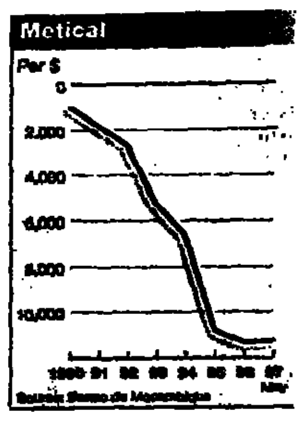
Informal trading: in a population of 18m, no more than 150,000 have formal sector jobs



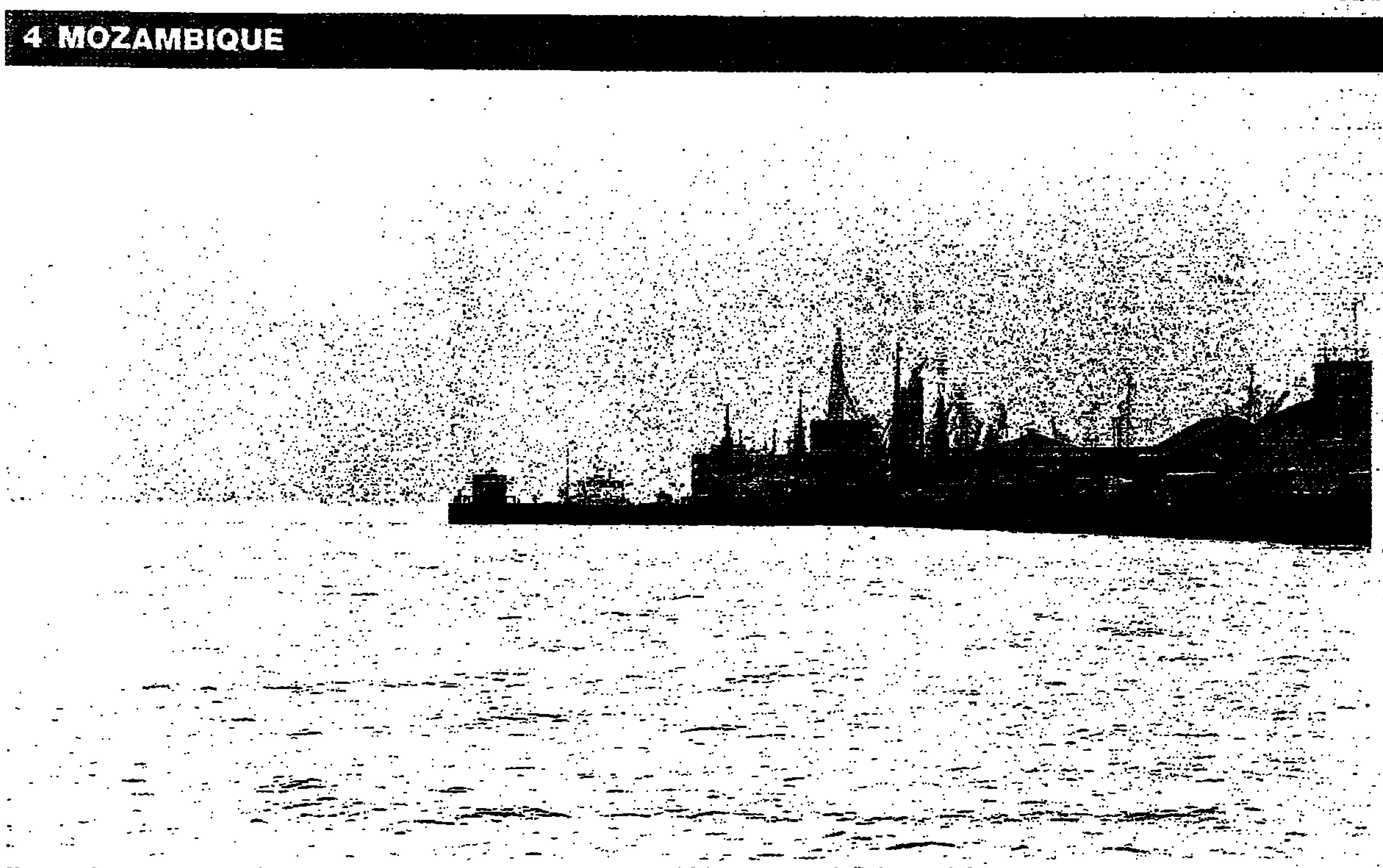
Source: World Bank; Mozambique Ministry of Planning



Source: Instituto Nacional de Estatística, Maputo; EIU



Source: Banco de Moçambique



Maputo port is out of bounds to vessels larger than 30,000 tons and can operate only during daylight. It is hoped the new road will trigger a revival

Grant Lee Neuenburg

DEBT • by Tony Hawkins

A struggle to manage huge burden

Substantial relief is needed, especially on payments to the IMF and World Bank

Debt relief is crucial to sustained recovery. While the World Bank and IMF can justifiably claim to have been more successful in Mozambique than in most other parts of Africa, they must also acknowledge that their assistance has contributed to an unsustainable debt burden.

Foreign debt has doubled from $2.8bn in the mid-1980s to $5.9bn at the end of last year. Multilateral debt – mainly the World Bank's soft loan arm, the IDA – has jumped from $113m in 1985 (4 per cent of the total external debt stock) to $1.7bn (30 per cent of the total) last year.

Bilateral loans from OECD countries grew rapidly in the second half of the 1980s, but have since increased not because new funds are being made available but as a result of the capitalisation of arrears. The main creditors (end 1995) are France with 14 per cent, Italy (12 per cent), Portugal (9 per cent) and Germany (7 per cent). However, the largest single bilateral creditor by far is Russia, which accounts for over 21 per cent, followed by Brazil (10 per cent) and Algeria (7 per cent).

The $5.9bn external debt stock excludes the estimated $1.7bn contracted in the 1970s for the building of Cahora Bassa hydroelectric dam. These loans were guaranteed by Portugal which has been servicing them, with interest being capitalised until 2000 when the Cahora Bassa company will take over responsibility for the debts.

Debt service figures highlight the unsustainability of Mozambique's situation. Scheduled debt service – interest and loan repayments – easily exceeded export earnings during the *1991-1995 period; but successive* debt-rescheduling agreements reduced the actual debt-service ratio to around 25 per cent. Last year, debt-service payments to multilateral agencies like the Bank and Fund accounted for almost half total debt service.

With arrears having risen to $1.4bn, Mozambique is desperately in need of substantial debt relief, especially on payments to the Bank and Fund. Maputo hopes its case for treatment under the World Bank and IMF's new programme for heavily indebted poor countries (HIPC) will go before the two agencies' boards around mid-year. If the boards decide the country qualifies – as seems probable – Mozambique will have reached the so-called "decision point". It will be then be eligible for "flow rescheduling" of up to 80 per cent of obligations to Paris club creditor nations. Non-Paris Club creditors will be expected to provide comparable relief.

Herein lies a potential problem in the form of the $1bn plus owed to Russia in respect of mainly military debt, as failure to agree on this could slow the process.

After three years of this kind of debt relief Mozambique would then reach the "completion point", at which stage, if the debt burden is still deemed to be unsustainable, it will qualify for 80 per cent stock reduction from the Paris club with comparable treatment from non-Paris club creditors. It will also receive grants from the HIPC fund along with further highly concessional loans from the IMF.

Mozambique's problem is that relief in respect of its multilateral loans will only become available in 2000 at the earliest. But over the next three years it will have debt service commitments to the World Bank and IMF of some $80m annually.

The government is asking bilateral donors to provide grants to service its IMF loans. That such aid will not improve the infrastructure or alleviate poverty is a *reminder of how tough the* business of economic development is.

MAPUTO CORRIDOR • by Mark Ashurst

Link to the industrial heartland

A planned road to South Africa demonstrates renewed regional co-operation

In the heyday of apartheid, 40 per cent of South Africa's manufactured exports passed through the Mozambican harbour capital of Maputo. Today, the most concrete example of renewed co-operation between previously antagonistic governments in both countries is their joint effort to revive that colonial trading route.

Their project, which its architects have dubbed the Maputo Corridor, is rich in symbolism. In the aftermath of independence in 1975, Pretoria's elaborate campaign of regional destabilisation was instrumental in devastating Mozambique's fragile infrastructure. Civil war and anti-*apartheid sanctions combined* to reduce the volume of South African cargo passing through Maputo to its current level of fewer than 3m tons, or 5 per cent of its manufactured exports.

Today, a new generation of policy makers are intent on repairing the damage. Mr Mac Maharaj, South African transport minister, describes the Maputo corridor as "the cornerstone of a regional economic integration strategy based on common understanding, practical co-operation and mutual respect".

A briefing document circulated to potential investors dubs it "the key to development of future economic opportunities for Mozambique and South Africa". That ambition alone is a measure of the profound political changes in both countries, and of their government's readiness to co-operate with the private sector.

The concept of a Maputo corridor was inspired by a US$3bn development in South America, where Brazil, Uruguay and Argentina expect to share the trade benefits of a new 2,100 km road linking Sao Paulo and Buenos Aires. In its initial phase, the southern African project will consist of little more than a road linking the Mozambican harbour to South Africa's industrial heartland of Gauteng.

Officials hope the new road will trigger a revival of *Maputo harbour, which* today is out of bounds to vessels larger than 30,000 tons and can operate only during daylight. Optimists argue that the building of a modern, industrial port will be the catalyst for a new network of roads, railways, pipelines and power cables. Such a network would draw industry closer to the region's natural resources, and strengthen its links to the outside world.

The administration of the project has confounded sceptics, *who feared it would* flounder for want of cash, regional co-operation and the regulatory reform required to satisfy the private sector. A 30-year concession to build, operate and maintain National Route 4, a new road linking Gauteng and Maputo was granted to a private sector consortium in December, slightly more than a year after the tender was announced.

The contract is the first build-operate-transfer deal with the private sector to be signed in South Africa, and has since been used as a model for the prison service and privatisation of the Mozambican customs authority. The successful bidder was Trans Africa Concessions, a consortium of local financial and construction interests and Buoygues, the French contractor. Stocks and Stocks, a South African company involved in *the consortium, expects the* financing to be settled within six months. Work could begin late this year.

The first phase of the new road is estimated to cost about R400m, and may undergo further expansion as traffic volumes rise. The route will extend the current road from Witbank, in the South African province of Mpumalanga, and reach 80km beyond the border at Komatiport, shaving 150km from the current route.

> The corrodor is seen as the "cornerstone of a regional economic integration strategy"

Upgrading the harbour at *Maputo, supplying electric*ity and installing new equipment at its loading bays, is likely to cost a further R500m. The bill for dredging the harbours to accommodate bigger cargoes is estimated at R75m, and improvements to other roads around Maputo could absorb another R600m. New rail and telecoms links are needed on both sides of the border.

These developments will take place only if the concept succeeds in attracting a spate of industrial investment. To date, evidence of the dynamo effect its architects envisaged exists only on paper. Projects under consideration include:

- A natural gas pipeline, to be built by Enron, the US gas company, linking its Pande gas field to a new plant in Mpumalanga. A feasibility study has begun, and a decision on the $600m project is pending.
- A slurry pipeline, to be built by Phalabora, the *South African mining com*pany, linking its Mpumalanga mines to the corridor. This may also separate magnetite and phosphate destined for Maputo.
- A phosphate processing plant in Maputo, where Foskor, the South African chemicals company, would convert Phalabora slurry into fertiliser. A pre-feasibility study is in progress.

Whether or not these plans come to fruition, the concept has already inspired a string of imitations.

The South African government has mooted plans for an "agro-tourism corridor" linking the country's national parks to Kosi Bay and the little-known "surf and turf" belt on the south coast of Mozambique. Botswana is examining the trans-Kalahari railway, and considering a new Namibian leg to its national rail system. Zimbabwe is looking at the dilapidated Limpopo railway, which may be revived *as a freight line to carry fer*ro-alloys to South African industries and ports.

INVESTMENT • by Tony Hawkins

Opportunities bound by red tape

Bureaucracy and rigid, time-consuming regulations can deter investors

In the 12 years since Mozambique began to reform and liberalise its investment code, the investment promotion centre (CPI) has approved almost $2.1bn of new projects. Some 21 projects, worth $316m have been cancelled leaving 742 projects involving $1.77bn of which $364m represents foreign direct investment.

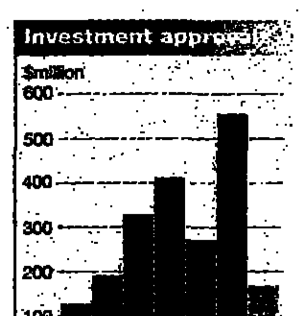
Because the centre reports approvals, rather than implementation, there is no accurate count of how much investment really is taking place. Bankers and businessmen are sceptical, arguing that had anything like $1.7bn been invested, the economy would have grown far more rapidly. Against this, the official balance of payments show a marked increase in foreign direct investment inflows from $22m in 1991 to $73m last year, totalling $232m over the period, suggesting that the centre's figures are not far from the truth.

The rate of investment approvals has accelerated *markedly in the last few* years – from $200m in the second half of the 1980s to $1.25bn during 1994-96 and a further $171m in the first quarter of this year. Industrial project approvals make up the largest single group – $550m or just over 30 per cent of the total of current projects. Agriculture and agribusiness account for $366m (21 per cent), construction for $246m (14 per cent) and hotels and tourism for $208m (12 per cent). Almost half the foreign investment has come from Portugal with a 27 per cent share and South Africa with 21 per cent. Britain is in third place with 12 per cent, while investors from Hong Kong account for 7 per cent.

Just one of the country's portfolio of mega-projects could change this situation dramatically (see table, page 3). The one closest to implementation is the planned Mozal aluminium smelter to be built at Maputo, by South Africa's Alusaf, part of the Gencor group, in a joint venture with the South African government-owned Indus*trial Development Corpora*tion. Investment centre officials say that the $1bn project, which will produce 245,000 tons of aluminium for export each year and create more than 1,000 new jobs, is likely to get the go-ahead in mid-1997.

Officials have high hopes too for the export processing zones planned for the three ports of Maputo, Beira and Nacala. Malaysian investors are showing an interest in constructing the zones which will house firms that export 85 per cent of their production. CPI's director, Mr Fernando Sumbana says he hopes neighbouring countries will set up processing operations in the zones, and also import some of their requirements from the coastal industrial parks.

Although much is made of the investment promotion centre as a one-stop investment shop, a report for the World Bank – "Administrative barriers to investment (The red tape analysis)" – shows that Mozambique has a long way to go before it can boast an investment-friendly environment.



"Many areas of industry, commerce and services are now open to the private sector," the report says, "but investment has failed to materialise." Regulations, some dating back to the late 1800s, are too rigid, prescribing too much "hand-written minutiae" for a modern economy. In contrast, there are no regulations covering the protection of intellectual property rights. The regulatory framework has not kept pace with economic reform.

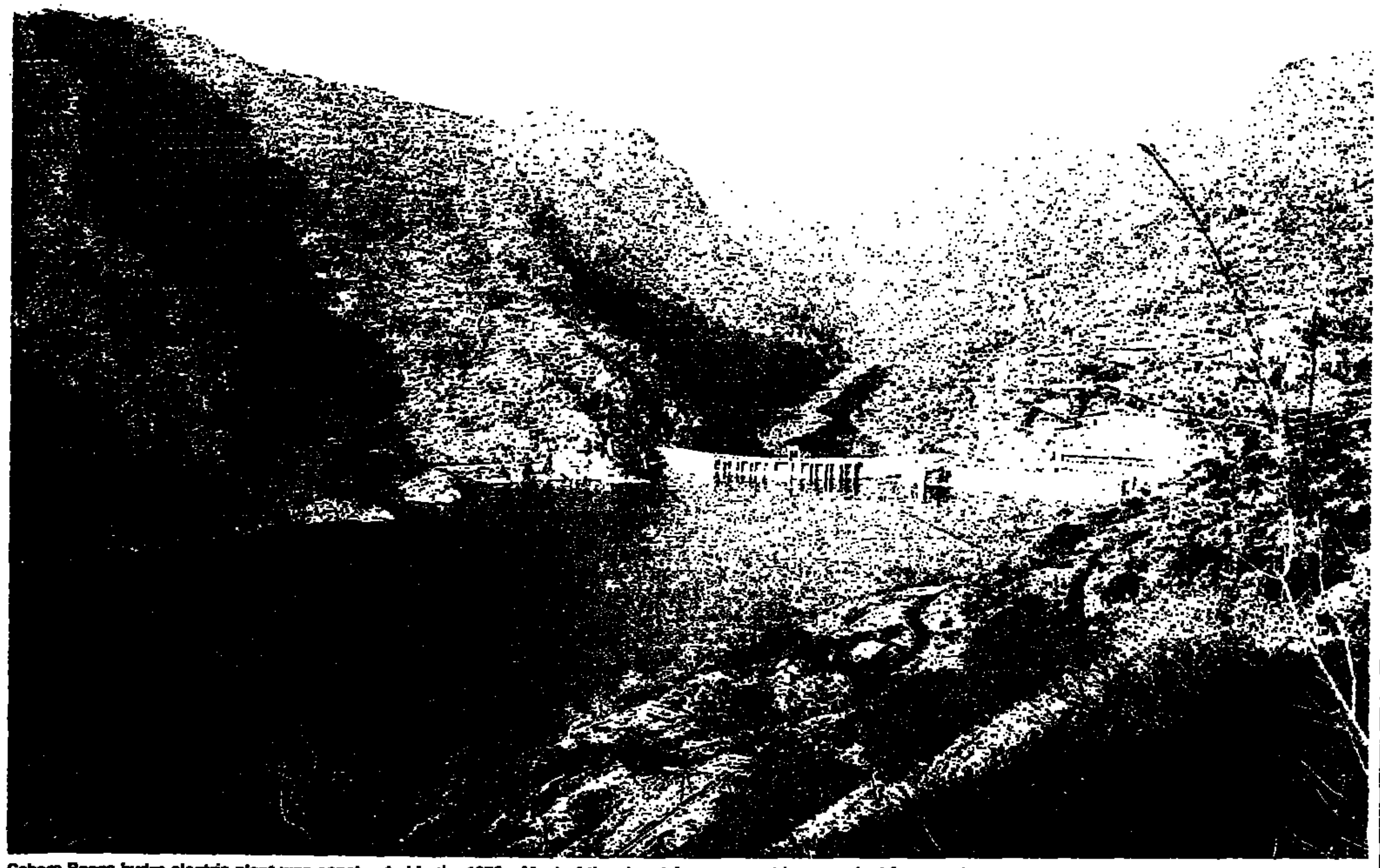
A key problem is uncertainty. "*Companies initiate* processes without knowing how and when they will end." Complicated fee structures at registries and courts make costs impossible to estimate without expert assistance. A foreign firm without the right contacts, can spend six months and up to 10 per cent of the initial investment merely getting itself incorporated.

All businesses must have specific authorisation to operate, and obtaining an industrial licence is time consuming and bureaucratic, says the report. It identifies as many as 145 different steps which must be fulfilled to set up a new company.

Labour regulations are enormously bureaucratic with one firm estimating that it needs to employ an *administrator for every 50 to* 70 employees to handle all the necessary paperwork. Obtaining title to premises in Maputo can cost $50,000. In contrast, incorporating a company in Delaware in the US costs $140 and takes no more than 24 hours.

Far from operating as a *facilitator and one stop* investment shop, the CPI adds time and costs to investors by laying down additional requirements to enable the agency to study and screen projects. "The mentality that surfaces here," says the report, is that of "a patron state". The heart of the problem is that institutions – people and systems – lag well behind policy change. The report urges the government to reduce the number of licensing requirements, eliminate duplicate steps, and cut the monetary cost of approvals.

Recent efforts to improve the business environment include lowering import tariffs by some 8 percentage points to an average of 10.8 per cent and adopting a "time-bound plan" to remove *administrative barriers to* investment, including simplified procedures for company registration and importing and exporting.



Cahora Bassa hydro electric plant was constructed in the 1970s. Most of the electricity generated is earmarked for export

Panos

ENERGY • by Tony Hawkins

Power to boost earnings

Exploitation of rich natural resources depends on substantial foreign investment

Because domestic demand is too small to justify investment in substantial new energy projects, export marketing holds the key to the exploitation of Mozambique's rich resources of hydropower, natural gas, coal and, potentially, oil.

Most of the electricity generated by the 200 megawatt Cahora Bassa hydro electric plant, developed in the 1970s, is earmarked for export, chiefly to South Africa but also to Zimbabwe. The destruction of pylons and power installations during the war left Mozambique with a foreign debt of $1.7bn for Cahora Bassa, which will have to be serviced from 2000. Exports to its two neighbours will resume later this year, boosting earnings significantly.

Electricity aside, scope for direct exports of energy is very limited and other energy projects are dependent on attracting new investment to the country to exploit relatively cheap power. The most immediate prospect is Mozambique Aluminium (Mozal), the aluminium smelter to be built near Maputo by South African mining giant, Gencor. This project will initially re-import electricity from South Africa, but next century will draw electricity from a planned new hydro-electric dam, at Mpanda Uncua 70 kms south of Cahora Bassa – a joint-venture between the state electricity utility EDM and South Africa's Eskom. Construction of this 2,500 MW dam is scheduled to start in 1999 – a project opposed by the Portuguese who own 80 per cent of the Cahora Bassa company (Hidroelectica de Cahora Bassa) and would prefer to see a second power station on the northern bank of the existing dam.

Similarly, the $1bn-plus Pande natural gas project depends on South African consumption. This would bring iron slurry via a pipeline from Phalaborwa in South Africa close to Maputo, where an iron reduction plant would be constructed by South Africa's state-owned Industrial Development Corp.

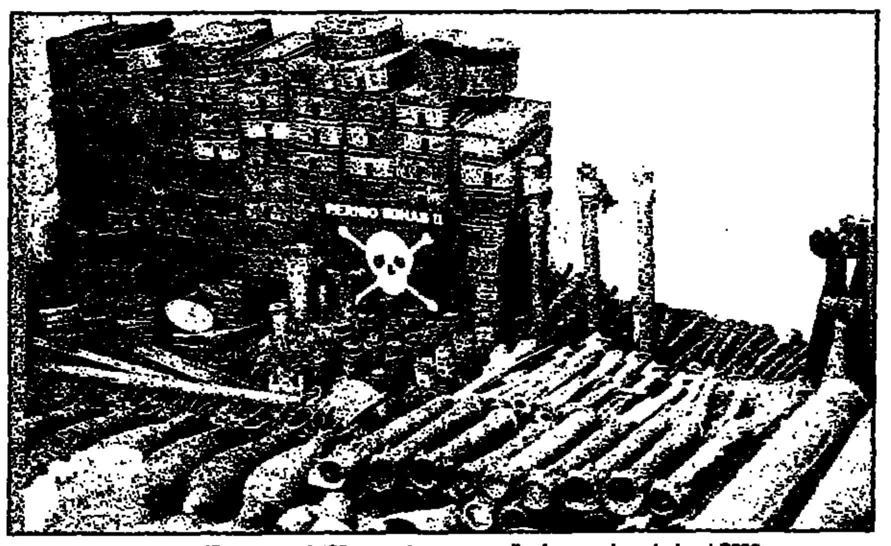
Last August, US-based Enron signed an agreement with the state-owned Empresa Nacional de Hidrocarbonetas (ENH) to develop the gasfield, though the key remains a marketing deal with the IDC. The latter has its own problems in that the proposed iron slurry pipeline would run through the Kruger game park and, predictably, this has run up against fierce opposition from conservationists and environmentalists, which could force the promoters to take the pipeline around the borders of the game park, thereby raising costs.

A similar megaproject is mooted further north, possibly close to the port of Beira, where another South African mining house, JCI, is considering building an iron-briquette plant, using coal from Mozambique's rich Moatize coalfield and iron ore imported either from neighbouring Zimbabwe or possibly from as far afield as Brazil. This is very much a long-term project, since it would require massive infrastructural investment in both the railway and the port of Beira as well as substantial investment at the coalfield itself.

A second natural gas find is being explored in the Temane block, some 11,700 sq kms off the coast of Inhambane province, north of Pande, which could feed the proposed iron briquette project. Further south is the Buzi gas field being investigated by Canada's Scimitar Hydrocarbons, which some estimates suggest could prove to be bigger deposit than Pande's proven 2.5 trillion cubic feet.

In the north, close to the Tanzanian border, Lonrho is prospecting for oil in the Rovuma basin, while BP is looking offshore. The common denominator for all the projects is finding markets for the energy, which in turn implies huge investment in energy intensive, usually minerals-beneficiation, projects. All too would require massive investment in infrastructure. Given Mozambique's low levels of per capita income and savings, such projects imply major commitments by foreign investors, with Mozambique a minor ity shareholder.

LANDMINES • by Roger Matthews



It could take between 45 years and 180 years to remove all mines and cost about $600m

A clear impact

In a country desperately short of accurate statistics, there is no greater area of numerical uncertainty than that surrounding land mines. But whether there are 500,000 or 1.5m. mines buried just beneath the soil of Mozambique is of less significance than the immediate damage they still inflict on civilians (at least 1,000 casualties since the end of hostilities) and the immense obstacle they pose to development in this predominantly agricultural nation.

President Chissano said in February that since 1992 some 30,000 mines had been removed, and the current clearance rate was about 11,000 annually. According to Mr Osorio Mateus Severino, director of mine clearing, the country would need anywhere between 45 years and 180 years to remove all mines, and he put the total cost at some $600m.

"But it is important to understand that this problem is manageable and can be beaten. And it need not take decades to achieve," says Col Greg Lindstrom, a New Zealander on secondment as chief technical adviser to the UN Demining Programme. "We can see the immediate impact that clearing just a few mines can have on the development of a local community. Each part of the country presents different challenges, and it may be decided it is not necessary to clear some minefields which would have little impact on development prospects."

He cites the example of a village north of Maputo which had been abandoned for six years by the local population. The area was swept; just eight mines discovered, and within a few months thousands of people had moved back, two shops, a school and a clinic had opened, and a police station was under construction. "On the other hand, we could have cleared an area of 8,000 mines and had not the slightest impact," says Col Lindstrom.

Overall responsibility for the mine clearance programme lies with the seven ministers who form the National Mine Clearance Commission. Set up in 1995, the commission has been criticised by foreign governments and non-governmental organisations involved in mine clearing for showing too little urgency and failing to set priorities.

With a range of countries, NGOs, and commercial companies involved, many of them employing different clearance methods and operating in different parts of the country, the importance of a nationally-directed programme is obvious. However, there are persistent reports of local initiatives still being taken without reference to the national commission. Another frequently heard complaint is the slow delivery of funds pledged by foreign donors, put at more than $90m, and the even slower disbursement once inside the country.

However, Col Lindstrom is convinced that after a slow start the battle is being won. "We now have a structure and are steadily gaining experience. What we now have to ensure is that we get value for every dollar spent, and that eventually we can withdraw, leaving behind a strong, professional and effective organisation, run and staffed by local people."

TRANSPORT • by Tony Hawkins

Direct line to greater efficiency

The railways are following the ports into private ownership and operation

Traditionally, Mozambique's railways and ports have been a major source of foreign earnings, handling traffic from South Africa, Swaziland, Zimbabwe, Malawi and Zambia. But throughput at the ports declined 75 per cent after independence in the mid-1970s and, although volumes recovered by a third in the first half of the 1990s, heavy investment in port rehabilitation and modern management is needed.

With the donors reluctant to pump funds into a government-controlled transport network and with the government itself unable to finance refurbishing the transport system, Mozambique has opted for privatisation.

The sugar and citrus terminals are already controlled by foreign investors: a Zimbabwe-Swazi joint-venture in the case of sugar; and South African citrus exporters (75 per cent) and the multinational Manica freight transport group (25 per cent) in the case of citrus. The container port is a joint-venture operation between the state-owned railway company, Caminhos de Ferro de Moçambique (CFM), with 33 per cent, South African freight transport group, Rennies (37 per cent) and P&O Australia (30 per cent).

This month transport privatisation is being taken several steps further with the government calling for tenders for six separate packages. Private and state contractors are being invited to tender for private railway concessions (PRCs) to operate the three lines serving the port of Maputo from Mozambique's borders with South Africa, Swaziland and Zimbabwe.

A separate concession is being offered for a port management company to operate the port of Maputo and two others for the railway marshalling yards and the locomotives.

CFM will retain a 33 per cent stake in all six companies, with the operator having a 51 per cent controlling stake and the balance of 16 per cent earmarked for other investors, believed to be Mozambican or possibly the owners of interlinked rail systems like the National Railways of Zimbabwe. The concessions will be for between 15 and 25 years and are likely to specify investment programmes and targets for refurbishment and expansion. The government hopes to wrap up the tender process during the second half of 1997 so that the new owners can take over early in 1998.

The Policy Framework Paper (PFP) agreed with the IMF and World Bank provides for the similar concessioning of the CFM centre (the railways to and from the port of Beira) and CFM-North (Nacala) to be completed by the end of 1998, which looks optimistic as 75kms of the Nacala line have still to be rehabilitated.

In putting so much emphasis on the role of the private sector in investing in and managing infrastructure, Mozambique is a leader in Africa.

That it may have no alternative does not detract from the fact that privatisation via the concessioning process is more likely to give the country an efficient transport network than continued state ownership.

Most production is done by hand, and mechanisation is present only on larger estates. No formal marketing system exists *Grant Lee Neuenberg*

TOURISM • by Roger Matthews

Recapturing the spirit

But poor transport and lack of competition on flights holds back development

The Polana Hotel, renovated by Karos of South Africa and the Mozambique government *Grant Lee Neuenberg*

"Investing in the hotels and tourist industry in Mozambique needs courage," says Mr Jose Roquette, executive director of the Portuguese-owned Pestana hotels and resorts group. "You have got to be brave, and patient. Three years ago it looked extremely risky, but today I think we have learned that it can pay to be daring."

Pestana is investing in four hotels, one aimed mainly at business visitors to Maputo, the others in resort areas. According to Mr Roquette this will make Pestana the largest hotels group in Mozambique, and it plans to expand by building game lodges.

Few other groups have taken the plunge, although the French company Spie Batignolles has plans to complete the shell of the Four Seasons hotel in Maputo together with a South African partner.

It is not surprising that the Portuguese and South Africans should have taken the investment lead as they harbour probably the most affectionate memories of Mozambique in pre-independence days. Only a five-hour drive, or one-hour flight from Johannesburg, Maputo (or Lourenco Marques, as it then was) was the playground of many South Africans seeking an escape from domestic social strictures. One long-term resident of Maputo says the city and coast was "delightful in every Mediterranean sense".

For the very affluent, a little of it was recaptured when the Polana Hotel reopened its doors in 1992. Built in 1921 in the style of the Mount Nelson in Cape Town, the Polana was renovated by a joint venture company formed by the Karos group of South Africa and the Mozambique government. Despite its international prices, Mr David Ankers, the general manager, says it has been a huge success. "For the last three years we have done extraordinarily well. Average occupancy last year was 68 per cent, of which just 3 per cent could be put in the tourist category." Those proportions are certain to change, however, as the Polana faces competition from the new wave of business hotels prepared to offer international facilities at less than half the price. How soon that will spill over into recreational tourism will depend on many factors, not least the improvement of transport and more competition on international flights.

"The cost of transport represents 50 per cent of the price of an average 7-10 day package to Mozambique from Europe," says Mr Roquette. "Together with the high cost of visas, this means expansion is unlikely to be very rapid. For the next three or four years I think there should be enough facilities in Maputo at least to satisfy demand."

Mr James Blanchard, a US businessman, has other ideas about the pace at which tourism can expand. Last year he persuaded the Maputo government to give him the rights to develop a huge swathe of land south of the capital, including 90km of beach.

On this 200,000 hectares, Mr Blanchard has plans for beachside developments, hotels, a yacht marina, holiday homes and a vast game park. A development figure of $800m has been mentioned. However, sceptics in Maputo are still awaiting details, and believe that should they emerge, there is likely to be intense controversy over the ecological impact of such a project.

BUSINESS GUIDE

Visas are required by all visitors to Mozambique. The process can take several days, but express service is available at extra cost.

The starting point for most people is Maputo, the capital. It is served internationally by Mozambique and Portuguese airlines direct from Europe. Alternatively there are flights from Johannesburg, and other southern African cities. Travel between major cities within Mozambique is best by air, although flights are heavily booked.

Portuguese is the official language, but is spoken by only a third of the population. English is widely used in business circles.

Anti-malarial pills are advised, as is bottled water. Maputo is a fairly safe city, but take local advice on walking after dark.

The Polana is the best hotel in Maputo, and charges accordingly. But the Cardoso is also popular with business people and is almost half the price. The opening of new hotels should further depress prices. The Ungumi restaurant, opposite the Polana, is excellent but pricey. In Beira, the Ambassador hotel is recommended.

Car rental is available from the airports or hotels. Alternatively rent a car and driver by the hour or day.

● Useful contacts: Banco do Mocambique (Central bank) tel 428150/9 or fax 421912. Utre (for privatisation) 426514, fax 421541. Banco Comercial do Mocambique, 428151, fax 423247. World Bank 492841, fax 492893. Maputo Development Corridor 426359, fax 430159. Commonwealth Development Corporation 421325, fax 422150. IFC 492841; fax 492893. Consultants KPMG, Peat Marwick; Ernst & Young, Coopers and Lybrand, and Austral (Deloitte Touche) are represented in Maputo. Mozambique Chamber of Commerce, 492210, 491970, fax 492211. Mozambique-US Chamber of Commerce, 492904. Hotel and Tourism Business Association, 425562.

Roger Matthews

AGRICULTURE • by Roger Matthews

Beyond subsistence

Potential is great, but marketing, mechanisation and land issues need to be addressed

Success in revitalising Mozambique's devastated agricultural sector is still being measured by the the level of emergency food assistance required. On that score the picture is measurably brighter.

Latest estimates by the Food and Agriculture Organisation indicate that some 170,000 people will need immediate food assistance over the next four months, and 77,000 may require help for a further three months. However the total import requirement of just over 10,000 tons (mainly maize) is just 46 per cent of last year's level.

This reflects the achievements in boosting domestic production, with total production of cereals last year estimated at 1.53m tons, the best for two decades, compared with 1.38m tons the previous year. Whether this increase can be credited to the government's success in resettling demobilised soldiers and getting more displaced people to return to the land, or to the second consecutive year of good rains, is debatable.

What is without question is Mozambique's huge development potential. Some 45 per cent of the country's land area is considered suitable for agriculture, but only 4 per cent of that is under cultivation. But the constraints remain substantial.

The lack of roads and suitable transport links between producing and consuming areas inhibits farmers from producing more than their immediate requirements. Although small traders are emerging, no formal marketing system exists. Most production continues to be done by hand, and mechanisation is present only on the larger estates. The government's policy on pricing has been liberalised, but has yet to be finally resolved. Equally, it has to decide on the issue of land tenure which is critical to building the confidence of the farming community working on state land.

Mr Jose Luis Ferreira dos Santos, whose family-owned company Grupo Ferreira dos Santos has been in Mozambique for 100 years and has a large stake in agriculture, has no doubt the government's market-oriented policies are having an effect. "Last year this country really began its rebirth, and now we can really feel it," he says. "We are poised for a big jump forward."

With 8,000 staff, his company is Mozambique's largest private sector employer and has taken advantage of the government's privatisation programme to acquire further interests in cotton, tea, tobacco and citrus. "We are currently investing a lot in rehabilitating plantations, rebuilding processing plants, and acquiring machinery such as tractors and trucks," he says.

"Although traditionally we have been very strong in cotton, five years ago we started growing tobacco and last year produced 1,500 tons. We expect further strong growth. We also bought three tea estates from the government and are involved in cashews." Mr Ferreira dos Santos acknowledges that illiteracy and lack of skills will remain a problem for many years, "but it will not stop the economy from growing".

The larger producers, such as Grupo Ferreira dos Santos and the Lonrho Mozambique Agricultural company, are also carrying much of the responsibility for increasing the country's exports. The government's overall target for this year is $276m, most of which will have to come from fisheries and agricultural products. International aid agencies are optimistic the target will be met, and point to maize sales last year to Malaysia and Angola. "It is not unreasonable to talk of total grain exports this year of some 100,000 tons," says one official.

Ironically, the largest amount of international publicity last year for the agricultural sector was not generated by domestic achievements, but by the arrival of the first of a dozen South African farmers who have been granted rights on a former state farm in the northern province of Niassa.

The project has been established as a Mozambique-South African joint venture, and to the extent it might raise local farming skills has been broadly welcome. "But it has to be seen for what it really is," says an adviser to the government. "And that is a gesture of political solidarity between the two governments. It is certainly not a panacea for the local industry."

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday June 25 1997 — Week 26

IN BRIEF

Unisource to be in profit by 2000

Unisource, the alliance between the national telecoms operators of the Netherlands, Switzerland and Sweden, promised profits by 2000 as it announced a net loss of Fl 375.4m ($194.5m) for the last year. The company expects revenues of Fl 10bn by the turn of the century. Page 20

Endesa plans 50% lift in dividend
Endesa, the government-controlled Spanish power group poised for further privatisation in a $7bn disposal, plans a 50 per cent lift in its dividend. Mr Rafael Miranda, chief executive, said it was merely a taste of what shareholders could expect from the company. Page 20

Internet threat to Reuters
Reuters, the UK financial information group, faces a fresh challenge with the disclosure that its market prices can be accessed using a PC connected to the internet. Display.FT said it had developed software that allows users to access Reuters data without direct connection to the company's proprietary network. Page 22

Blow for US biotechnology sector
The US biotech sector suffered another blow with the suspension of the final stage trial of Cerestat, a drug used to treat strokes, made by Massachusetts-based Cambridge Neuroscience. The company's shares fell 59 per cent to $3⅞ in early trading in New York. Page 16

Canadian banks on expansion trail
Royal Bank of Canada and Bank of Nova Scotia, Canada's first and fourth ranking banks, have revealed ambitious expansion plans. RBC has plans to acquire London Life, the country's biggest seller of life policies, while Scotiabank revealed a C$1.3bn ($930m) friendly bid for National Trustco, based in Ontario. Page 16

Redevelopment for Hong Kong hotel
Lai Sun, the Hong Kong property group which has launched a HK$6.9bn (US$891m) bid for the territory's five-star Furama Hotel, is exploring redevelopment possibilities – although it has no immediate plans to pull it down. Page 18

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Badenwerk	573	+	18
Deutsche Bank	98.50	+	1.82
Didier-Werke	158	+	7.50
Siemens	106.35	+	3.15
Falls			
Gerresheimer	29	−	1.40
Metro AG	188.10	−	4.40
NEW YORK ($)			
Rises			
Bristol Myers	81⅝	+	5⅛
Integon Cp	24⅝	+	8⅛
NatWest	81¼	+	4⅛
Falls			
Estee Lauder	47⅜	−	1¼
Genl Cigar	27½	−	1⅞
Volt Info	46⅝	−	2⅝
LONDON (Pence)			
Rises			
Brockbank	672½	+	130
Dowling & Mills	69	+	6½
Hewitt Walshg	52	+	7
MAID	157	+	7½
Falls			
BSkyB	467½	−	19
Halma	162½	−	27½
TORONTO (C$)			
Rises			
Cabre Expl	27.00	+	1.25
Pinnacle Res	21.50	+	1.50
Southam	23.50	+	1.25
Falls			
Paralta Res	16.00	−	0.70
Sth Westn Gld	9.25	−	0.70
Teck Corp	28.00	−	2.00

PARIS (FFr)			
Rises			
Alcatel	712	+	27
Cred Lyon	274.80	+	16.80
Gen des Eaux	729	+	21
Sidel	449.90	+	19.90
Falls			
BIC	949	−	16
Peugeot	580	−	11
TOKYO (Yen)			
Rises			
Denso	2720	+	90
IBJ	1690	+	70
Lg Term Credit	493	+	32
Falls			
JEOL	730	−	18
Kikkoman	757	−	18
Nippon Oil	610	−	19
HONG KONG (HK$)			
Rises			
Cosco Pacific	14.70	+	0.35
Kowloon Mtr	15.80	+	0.80
Sth Ch Mm Pst	7.70	+	0.25
Falls			
Hang Lung Dev	14.05	−	0.15
HK & S Hotels	12.35	−	0.40
Shaw Bros	8.10	−	0.25
BANGKOK (Baht)			
Rises			
KCE Elec	72.00	+	6.50
Minor Corp	24.50	+	2.00
Nam Seng Ins	132.00	+	11.00
Thai British	22.00	+	2.00
Falls			
Nakornthon Bk	38.75	−	4.25
Thai Factory	45.00	−	4.75

New York & Toronto prices at 12.30

Developed countries overtaken in US stock market issues

Surge from emerging markets

By Edward Luce in London

The number of emerging market companies to issue shares on stock markets in the United States has soared in the first half of 1997, overtaking the number of issues from companies from developed countries for the first time.

Officials at Citibank, which will publish its findings today, say that the aggregate value of issues from emerging market companies reached $3.42bn in the first half, up from $2bn in the same period of 1996.

"Emerging markets are starting to grow very quickly, so their leading companies increasingly need to tap capital from the global market," said Mr James Donovan, managing director of American Depositary Receipts (ADRs) at Citibank in New York. "The US market has about 31 per cent of the world's equity capital so it is impossible [for emerging market companies] to ignore."

Emerging market companies made up 57 per cent of new listings by foreign companies in the first half of the year, up from 36 per cent in the same period of 1996.

Meanwhile, the dollar turnover of all ADRs, or foreign-listed shares, rose by 20 per cent in the first half to $211.5bn, reflecting a big leap in US demand for overseas equities.

ADRs are shares issued by a foreign company in the US in parallel to its domestic listing. The share price of an ADR is usually the same as its domestic listing. Emerging market companies with shares listed in New York include Gazprom, Russia's largest gas company, the Philippines Long Distance Telephone Company, and the State Bank of India.

Emerging-market banks and telecommunications companies were the most prolific issuers in the first half of 1997 according to Citibank. Unibanco, Brazil's largest privatised bank, topped the list with a $940m offering in New York as part of its initial public offering earlier this year.

Other companies to secure US equity listings include China Steel, Asustek, a Taiwanese computer firm and BPL, an Indonesian cellular telephone company.

Companies from the Asia Pacific region topped the list with 27 new issues, with Latin America (21) following.

The UK, with 15 companies listing in New York, was the largest single source of new ADR listings followed by Australia, Brazil and Mexico.

Citibank attributed the growing demand by US investors for emerging market paper to the strong growth prospects of stock markets in developing countries. Emerging market stock exchanges make up just 11 per cent of total global capitalisation.

Vendôme buys watchmakers but loses Lagerfeld

By Christopher Price in London

Vendôme, the Swiss-based luxury goods group, yesterday announced the acquisition of two watchmakers but said it had lost the services of Mr Karl Lagerfeld, the French fashion designer.

Mr Joseph Kanoui, chairman, said Ms Stella McCartney, daughter of ex-Beatle Sir Paul, was a good choice to succeed Mr Lagerfeld at the Chloé fashion house, which is owned by Vendôme. Mr Lagerfeld has decided to pursue other business interests.

However, Mr Kanoui stressed that the departure of Mr Lagerfeld and the loss of the Lagerfeld trademark, which Vendôme has held for five years, would have no significant effect on revenues.

The purchase of Vacheron Constantin, described as "one of the big five Swiss watchmakers", and Panerai, a manufacturer of high-specification models, were included in a SFr283m ($197m) spending spree by the group last year. Vendôme's other brands include Cartier and Dunhill.

Details of the deals emerged as the company reported an 8 per cent rise in pre-tax profits to a record SFr509.9m in the year to March 31. The strong pound meant pre-tax profits declined 4 per cent to £247.5m when converted into sterling. Sales increased 12 per cent to SFr3bn.

Sales of jewellery rose 12 per cent to SFr526.1m, while watch sales were 21 per cent ahead at SFr315.5m. Writing instruments sales rose 12 per cent to SFr354m, with leather turnover 3 per cent higher at SFr301.5m.

Founded in 1775, Vacheron Constantin is the oldest Swiss watchmaker and produces some 12,000 units a year. Its most expensive model retails for SFr300,000. The business was bought from Sheikh Yamanhi for an undisclosed price.

Vendôme's best market was North America where sales improved 22 per cent to SFr593.4m. There was a second half recovery in the far east, which had been hit in the first half by the strong yen. Sales rose 14 per cent to SFr1.21bn.

While Cartier and Montblanc had good years, the performance from the Alfred Dunhill group was patchy. This was chiefly due to the yen effect which had led to "some dramatic reductions in sales in some areas", according to Mr Kanoui.

However, Dunhill had achieved some success, particularly in China, where 12 shops operate. Mr Kanoui said Chinese men were keen to buy designer clothes.

Earnings per unit rose 8 per cent to SFr0.546. A final dividend of SFr0.2 per share makes SFr0.295 in total, an increase of 23 per cent.

Vendôme is 70 per cent-owned by Richemont, the Swiss holding group.

Buying time: Vendôme chairman Joseph Kanoui has acquired two watchmaking groups — Colin Beere

Mexico rail line nets $1.4bn

By Daniel Dombey in Mexico City

Transportación Ferroviaria Mexicana (TFM), a Mexican-US rail consortium, yesterday took control of Mexico's most important railway line in a $1.4bn deal that completed the country's most fraught sell-off.

Official relief over the company's payment of the final instalment for the line, which runs between Mexico City and Laredo, was tempered by analysts' concerns that TFM had paid too high a price.

The final payment of $625m and substantial investment plans are to be financed by $150m of 10-year 10.5 per cent bonds, $250m of 12-year bonds at 11.75 per cent, and a $325m syndicated bank loan which, TFM said, was at cheaper rates. The bonds were placed last week and the loan finalised on Monday. TFM also secured a $150m revolving credit line for other expenses.

Controversy has dogged the sale since last December when TFM bid $1.4bn for the line, which carries 60 per cent of US-Mexico rail traffic. The bid was 2¼ times the next best, and TFM's initial financing plans fell apart.

Critics said the companies making up TFM, Transportación Maritima Mexicana, Mexico's biggest transport company, and Kansas City Southern Industries, one of the US's smaller rail groups, had been over-eager in their bid. The Mexican government then helped by injecting $200m in the form of a bridge equity stake of 24.5 per cent in the company. This is on top of the state retaining a 20 per cent interest in the line.

"The financing would have been significantly more expensive if we had not got [government help]," said Mr Dan Carpenter, vice-president of finance at Kansas City Southern Industries.

He said the lossmaking railway's sales would be boosted by Mexico's growing international trade – estimated to rise by 15 per cent a year for the next few years. The line carried 22m tonnes of freight last year, but TFM says it could poach another 16m from road hauliers.

Analyst Mr Santiago Piqué of Bear Stearns in New York was disappointed TFM does not expect a profit until 2000.

Wachovia buys bank in $2.3bn stock swap

By John Authers in New York

US banking consolidation continued yesterday as Wachovia, a powerful North Carolina-based commercial bank, bought Central Fidelity Banks of Virginia in a stock swap worth $2.3bn.

It is the second Virginian bank that Wachovia has bought this month, following its purchase of Jefferson Bank shares for $542m two weeks ago. Wachovia will have assets of $60.2bn, making it the 17th largest in the country.

It is the largest deal in the banking sector since Minnesota-based First Bank System acquired Oregon-based US Bancorp for $8.7bn in March.

Mr Lewis Miller, Central Fidelity's chief executive, said banks "which want to compete must invest in technology, but the investments needed to keep pace are enormous".

Wachovia, which is investing heavily in technology and last year launched a pilot scheme for "smart" payment cards, is one of several North Carolina banks which have benefited from the state's relatively liberal banking laws.

So far, though, it has been more cautious in its expansion than its Charlotte-based rivals NationsBank (now the nation's fourth largest bank by assets), and First Union (sixth largest).

Mr Bud Baker, Wachovia's chief executive, said the bank would be "looking for other opportunities". He said the acquisition was "low risk" as it covered a market which bordered its own, and the purchase price was less than 25 per cent of Wachovia's market capitalisation.

Nevertheless, the acquisition of Central Fidelity was aggressively priced, at about 2.8 times the company's book value. Wachovia's two acquisitions this month will create costs of $136m this year, shaving 13.5 per cent off its projected profits, and a further $54m next year.

These will be balanced by annual savings of $79m, or approximately 30 per cent of Central Fidelity's expense base, according to Wachovia.

Wachovia's share price slipped $1⅜ to $61⅛ in early afternoon trading. Central Fidelity's stock gained rapidly, up $5⅞ to $37⅛. At the exchange ratio of 0.63 Wachovia shares, the deal values each Central Fidelity share at about $38⅝.

Barry Riley

Vertigo as Wall Street assesses its options

Round at Morgan Stanley the phrase "it doesn't get any better than this" is beginning to grate. Analyst after analyst in New York is unfolding a glittering prospect of rising company earnings, while inflation and interest rates remain quiescent. Maybe it is all too good to be true.

Bull markets, they say, climb a wall of worry. Bear markets, you could add, start with a bubble of over-confidence. There was an uncomfortable US economic triumphalism at the Denver G7 summit. I have been noticing the popularity of a new contrarian financial lunchtime game: it's called *Guess what is about to go wrong*.

When on Monday the Dow Jones Industrial Average suffered a 192-point fall, the explanation was alleged to be that Ryutaro Hashimoto, the Japanese prime minister, had threatened to sell US Treasuries and buy gold, thus pushing up dollar bond yields and undermining Wall Street's stratospherical valuations. But the threats were later denied, and anyway, bonds hardly moved.

The real explanation may be simpler: US investors have huge profits to protect. At last Friday's peak the Dow had risen 22 per cent from the 1997 low on April 11.

Where are the triggers for a potential accident? In Asia Thailand remains unstable and there are fears of a domino effect involving several financially weak neighbours, possibly undermined by a shakeout following the Hong Kong handover, now only five days away.

In Europe there is the danger of a breakdown of confidence in Emu, leading to stampedes into D-Mark assets and a panicky rush out of Italian and Spanish bonds, with France caught somewhere in the middle. But although such a disorderly reversal of the convergence play is entirely possible, it does not seem imminent.

Inflation is the dog that has not yet barked. Commodity prices have recently dipped, and the return on the Goldman Sachs Commodity Index, for instance, has been minus 10 per cent for the year so far. Goldman's Steve Strongin says commodity price inflation will respond to an acceleration of global economic growth, but maybe not until late in the year, or in 1998.

> There is growing controversy about a possible enormous error in US corporate accounts

But could a bolt from the blue emerge in the US corporate sector itself, in the shape of earnings disappointments? There is, in particular, growing controversy about a possible enormous error in corporate accounting statements.

Many investors are uneasily aware that it is only the unexpected strength of profits that keeps US stock prices in any sort of contact with historical valuation ranges. On the basis of dividend yields, say, or price-to-book ratios, share prices are in outer space. But when the trailing price-earnings ratio on the S&P 500 Index reached 22 last Friday, falling to maybe 19 on a prospective 1998 basis, it was not outrageously out of line with past experience (in bull markets, anyway).

There is deep concern, however, over the implications of stock options, which are now a huge benefit – worth maybe $70bn a year, and rising – to US executives and other employees. But because of an accounting loophole these are not being charged against corporate earnings.

According to Andrew Smithers, a London-based economic consultant, earnings may be overstated by 20 per cent, or even more. That trailing p/e ratio could be 30.

As for the Japanese scare, its government is such a big holder of US Treasury bonds that it has no reason deliberately to rock the boat. But there has long been a fear that a recovery in the Japanese economy and a rise in interest rates there would choke off the flows that have pumped so much liquidity into the US.

Yet already the yen has partially recovered against the dollar, and the fear that this would trigger a chaotic unwinding of "yen-carry" leveraged positions in dollar securities does not seem to have been justified.

But Wall Street is suffering from vertigo, and the higher it goes the more it has to worry about.

Utilities join AT&T in marketing link

By Christopher Parkes in Los Angeles

The age of the single monthly utilities bill – bundling together charges for all in-home services – moved closer yesterday with the announcement of a national marketing alliance between two regional US power groups and AT&T, the leading long-distance telephone group.

The link, prompted by fast-moving deregulation of the US electricity industry, is the first national marketing effort of its kind. It will offer consumers and participating utilities centralised marketing and billing services for electricity, gas, telephone, internet and electronic security-alarm services.

All will be provided under the EnergyOne brand, the name of a 50:50 joint venture between UtiliCorp United of Kansas City and Peco of Philadelphia.

AT&T will contribute an integrated national call centre and billing system.

The telecoms group will gain access to the founding partners' 3.4m customers and a boost to its efforts to penetrate local phone markets.

EnergyOne said it expected its customer base to grow ten-fold over the next three years as more regional utilities signed up.

The new venture aims to franchise its name and services to utilities confronted by the challenges of the introduction of a free market in electricity and the already-established large specialist power groups.

Enron, for example, has in the past year stepped up national promotional efforts – even in markets where monopoly rules still apply – to establish its brand name.

EnergyOne franchisees would be well-placed to "stake a claim on the leading edge of an entirely new business category – integrated utility services," said Mr Andrew Guarriello, the venture's president and a former AT&T executive.

Financial benefits included lower infrastructural costs and cross-marketing opportunities, said Mr Hawk McIntosh, a utilities specialist with the Arthur Andersen consultancy.

Other benefits to AT&T, for example, include its plan to use the EnergyOne system to sell and service security systems provided by ADT, one of its existing joint-venture partners.

The group also has links with DirecTV, the Hughes Electronics satellite service.

According to Mr McIntosh, cable and satellite TV services would be logical additions to the array of services offered.

However, he said the main challenge to the venture would be establishing a workable centralised system for handling operations.

"Building a consumer service system is not a trivial task. Even when you are adding on to an established set-up it can take two or three years," he said.

Canadian banks set off on expansion trail

By Bernard Simon in Toronto

Royal Bank of Canada and Bank of Nova Scotia, Canada's first and fourth ranking banks, yesterday revealed ambitious expansion and diversification plans.

RBC has launched the most ambitious foray by a Canadian bank into insurance with talks to acquire London Life, the country's biggest seller of individual life policies.

London Life, 57 per cent owned by Trilon Financial, part of the Edper resources and financial services group, has a market value of about C$1.9bn (US$1.36bn).

Trilon confirmed the talks with RBC yesterday but declined to give further details. It said a deal would include an offer to minority shareholders.

Scotiabank unveiled a C$1.3bn friendly bid for National Trustco, a mid-sized deposit-taking and mortgage institution whose main strength is in south-west Ontario. Holders of 47 per cent of National's shares have agreed to tender their stock.

Scotiabank said the deal would increase its market share in retail banking, and expand its presence in investment management and other fiduciary businesses.

RBC is one of North America's biggest financial institutions with assets of C$251bn. London has assets under administration of C$33.3bn, with net income of C$38m in the first three months of 1997.

Mr John Cleghorn, RBC chief executive, has identified insurance as a "high potential" business on which the bank is eager to capitalise "as the North American population continues to age and moves from a borrowing to an investment cycle".

The two banks' initiatives reflect a number of recent trends in Canadian financial services, including a growing number of informal alliances between banks and insurers, and the gradual wilting of trust companies, previously one of the "four pillars" of the sector.

The banks' advance into insurance has up to now been held back by tight restrictions, notably on the exchange of customer data between their banking and insurance arms.

However, these curbs are being reviewed by a government-sponsored task force headed by Mr James Baillie, a Toronto lawyer. The group is due to report next year.

John Cleghorn: RBC identifies insurance as 'high potential' business — Brendan Corr

Stroke drug trial suspended

By Daniel Green

The biotech sector suffered another blow yesterday with the suspension of the final stage trial of a stroke drug called Cerestat, made by Cambridge Neuroscience, of Massachusetts.

The company's shares fell 59 per cent to $3⅞ in early trade. They were trading at $14 as recently as February.

This failure follows that of another drug at a Massachusetts biotech company, Autoimmune, in April, and one at Celltech, of the UK, last month.

These and other failures have left the biotech sector lagging behind in both US and UK stock markets in recent months.

Mr Elkan Gamzu, chief executive of Cambridge Neuroscience, said that the Cerestat stroke trial had not been abandoned and that existing patients would be followed for the next three months.

The exact reason for the trial's suspension is secret, even from Mr Gamzu, so that the independence of further analysis is not compromised.

But he said that independent advisers had probably noticed some adverse side effect. The official reason for the suspension is that "interim analysis of data" had raised doubts over "the benefit-to-risk ratio of [the] drug treatment".

The data must have been borderline, otherwise another trial of the same drug for head injuries would also have been suspended, Mr Gamzu said.

Cerestat is being developed in conjunction with Boehringer Ingelheim, Germany's largest private pharmaceuticals company.

SB halts trials, Page 36

Strong demand for Qwest in first-day trading

By Richard Waters in New York

The soaring demand in the US for internet and other services that rely on high-capacity telecommunications networks contributed to an enthusiastic stock market reception yesterday for Qwest, which is building a national fibre-optic network from scratch.

The demand prompted shares in the company to rise in early trading to $29⅝, one-third higher than the offer price of $22, putting a value on the company of $2.9bn. By early afternoon, the shares had slipped back slightly to $27⅝.

The high stock market valuation for Qwest, which had revenues last year of only $231m, promises to make a rich man of Mr Joseph Nacchio, who until last autumn ran AT&T's core consumer long-distance business. Mr Nacchio left AT&T shortly after Mr John Walter was brought in from outside to run the company, and became chief executive of Qwest at the beginning of this year.

Under an agreement with Mr Philip Anschutz, Qwest chairman, Mr Nacchio received a $10.7m signing-on bonus and stands to benefit from 3 per cent of Qwest's market value in excess of $1bn – or more than $50m at yesterday's share price.

Mr Anschutz, a real estate and oil baron, controls the 86.5 per cent of the company not sold publicly yesterday.

Qwest is building a 13,000-mile long-distance network which will link 92 metropolitan areas in the US by the time it is completed at the end of next year.

By using the latest fibre-optic technology, the company predicts it will be able to operate and maintain its system more cheaply than rival networks, enabling it to undercut rivals on price.

Capacity on US telecommunications networks has expanded rapidly in the 1990s. Companies such as AT&T are spending large sums to raise the capacity of their existing systems.

But the warm stock market reception for Qwest indicates a belief that corporate use of the internet, along with video and other services over telephone lines, will continue to drive demand for ever broader bandwidth.

AMERICAS NEWS DIGEST

Oracle launches new product line

Oracle, the US leading database software company, yesterday launched a new line of products, including an updated version of its flagship database program. Oracle8 will enable the company to expand its share of the $5.7bn database management software market, which already stands at over 50 per cent, industry analysts said. Oracle also introduced new software for Network Computers, the low cost desktop devices that Oracle is promoting as an alternative to personal computers. Oracle sees the new products as a direct challenge to Microsoft, the leader in desk-top computer software.

The new products include NC Server software, which provides programs needed to set up a network of NCs, and a "Network-In-a-Box" system, comprising all of the hardware and software needed for five users on an NC network.

Oracle said it would launch its first television advertising campaign, a multi-million dollar effort aimed at raising awareness of the company and its products.

Louise Kehoe, San Francisco

Southam shares jump

Shares in Southam, Canada's biggest newspaper chain, jumped about 5 per cent yesterday as investors bet that Mr Conrad Black's Hollinger group would renew its quest for the 49.5 per cent of Southam it does not already own. Hollinger was rebuffed on Tuesday when holders of only 15 per cent of minority shares accepted its C$923m (US$664m) bid to take Southam private.

Southam shares rose C$1.25 to C$23.50 in early trading in Toronto. A committee of independent Southam directors valued Hollinger's offer, comprising cash and shares, at C$23.55-C$23.95 a share.

Mr Peter Atkinson, Hollinger's general counsel, said a new bid was "very unlikely in the reasonably foreseeable future". He added: "It's not the end of the world. We're not wringing our hands." Hollinger will take up the shares tendered to its offer.

Hollinger sought to take out the minorities partly to gain access to Southam's rising cash flow, and to give it more flexibility in running the Canadian company. Mr Black earlier took the UK's Telegraph group private.

Bernard Simon, Toronto

Suncor in Australian venture

Suncor, the Canadian oil producer, has announced a C$275m (US$197m) pilot project to develop Australia's oil shale, the company's first international venture in which it will export extraction technology developed for Alberta's oilsands. Suncor will join Southern Pacific Petroleum and Central Pacific Minerals to build a 4,500 barrels per day demonstration plant by 1999 in Queensland.

The plant could eventually become a full-scale commercial operation, producing 85,000 b/d after 10 years and rivalling in size Suncor's facility at Fort McMurray, Alberta.

Suncor will contribute C$244m to the Stuart oil shale project, of which C$148m will come from internal sources and the remainder will be in the form of a project financing loan from its partners. Suncor has worked for several years to adapt specialised technology developed for Alberta operations. Suncor, which will operate the Stuart plant, said it was seeking other projects to develop using its oilsands extraction expertise.

■ Husky Oil and Alberta Energy are planning a C$400m pipeline to meet growing demand for Alberta heavy oil. The 552km pipeline will carry 150,000 b/d of heavy oil from the oilsands regions in northern Alberta to a hub south-east of Edmonton. The pipeline is needed as producers increase output of heavy oil, seen as the last frontier in the Canadian energy sector.

Scott Morrison, Vancouver

Televisa finance chief quits

Mr Guillermo Cañedo White is understood to have resigned as chief financial officer at Televisa, the Mexican media group, following an executive coup led by members of the Azcárraga and Burillo families, the controlling shareholders at Televisa. Although the company would neither confirm nor deny Mr Cañedo White's departure yesterday, minority shareholders close to the boardroom battles said the resignation would be announced on Monday.

Televisa's shares were not affected yesterday, as traders said the management upheavals at the $4bn corporation had been already discounted. Televisa is understood to be searching for a new chief financial officer to replace Mr Cañedo White.

It was not known whether Mr Cañedo White and his brother Pablo had sold their 10 per cent stake in Televicentro, the company which controls 52 per cent of Televisa's voting stock, or whether they would retain their seats on the board of directors as part of the controlling group of Televisa shareholders.

Leslie Crawford, Mexico City

INTERNATIONAL NEWS DIGEST

Thyssen Stahl sells two units

Thyssen Stahl, the steel arm of the Düsseldorf-based Thyssen group, yesterday announced plans to sell two subsidiaries making steel sections and wire rod to Ispat International, the fast growing London-based steel company. The disposal forms part of Thyssen's plans to refocus its activities on flat products such as processed and plate steel. The sale price was not disclosed. The move follows the hostile takeover bid for Thyssen mounted earlier this year by Krupp, the steel and engineering group, which was withdrawn after the two groups agreed to create a joint venture focusing on flat steel products.

The businesses Thyssen is selling are Stahl Ruhrort, which was founded last October and makes sectional steel, and Walzdraht Hochfeld, which specialises in wire rod products. They have a combined annual turnover of DM1.2bn ($697m). The latest figures show Walzdraht Hochfeld made a pre-tax loss of DM22m in the 12 months to September 1996.

Thyssen said the 1,800 jobs affected by the deal would not be cut and that the future development of the two companies had been secured. The deal needs to be approved by the European Commission.

For Ispat, the acquisition will mark an expansion of its activities in Germany, where it owns a steel mini-mill in Hamburg. The privately owned group, controlled by Mr Lakshmi N. Mittal, chairman, has extensive interests in steelmaking in Indonesia, Canada, Mexico, Trinidad & Tobago, and Kazakhstan, where it has pledged to invest $950m in the giant Karmet steelworks. Turnover last year reached $2.72bn.

Ralph Atkins, Bonn and Stefan Wagstyl, London

DTB in Simex trading link

Germany's futures and options exchange, the Deutsche Terminbörse, plans to extend into Asia with a co-operation deal with the Singapore International Monetary Exchange (Simex). This will give Simex the right to trade DTB products on its floor.

Initially the agreement – to take effect by next April – will cover Bund and Bobl (three- to five-year government bond) futures and options, as well as Schatz (two-year bond) futures. Later products based on the Dax index of large German companies may be included.

The DTB's eventual aim is to have its own terminals in Singapore so that Simex members can trade contracts directly. Simex will sponsor the DTB's application to the Monetary Authority of Singapore to install the terminals. Mr Jörg Franke, a director of Deutsche Börse, which runs the Frankfurt securities exchanges, said this was the first such link-up between the DTB and an overseas exchange. It opened the way for DTB products to be traded more intensively in the Asian time zone.

Mr Victor Liew, Simex chairman, said the agreement was an important step towards developing European products for trading in the region. "The link marks a milestone for Simex in its drive to develop as a major centre for risk management in this time zone, for the trading of interest rate products to complement its eurodollar and euroyen contracts."

Andrew Fisher, Frankfurt

LVMH lifts GrandMet stake

LVMH, the French luxury goods and drinks group, is still buying up shares in Grand Metropolitan, which is looking to complete a £25bn ($15.02bn) merger with Guinness. The French group, which is headed by Mr Bernard Arnault, yesterday spent a further £1.47m on buying another 250,000 GrandMet shares, taking his company's stake in GrandMet to 6.3 per cent, according to documents released by the London Stock Exchange yesterday.

Confusion surrounds the move by Mr Arnault's group. The LVMH chief, who has a seat on the Guinness board, has clearly been unhappy since Guinness and GrandMet announced the merger last month. Last week LVMH paid around £800m for GrandMet shares. This fuelled speculation that the group might further increase its stake, either to force its way into a three-way tie-up, or to block the deal entirely.

LVMH has said it has no intention of bidding for GrandMet, but it has been reported that it is seeking to build up a 10 per cent stake. Analysts had previously thought that Mr Arnault was merely trying to edge his way into the deal, but now say he may be prepared to block it and force Guinness and GrandMet – whose merger will create GMG Brands – to let LVMH join in.

Agencies, London

BoA opens Beijing branch

Bank of America, which opened a branch in Beijing this week, sees growing opportunities in helping local companies raise funds abroad. The new Beijing branch will focus on north-east China, home to some of the country's largest state-owned enterprises. The bank also has branches in Shanghai and Guangzhou.

Mr David Coulter, Bank of America chairman, said there were increasing possibilities in helping Chinese companies tap international capital markets. The bank had assisted a number of Chinese institutions, including the Ministry of Finance and Bank of China.

Eleven foreign banks have branches in Beijing, including Citibank, First National Bank of Chicago and Hong Kong and Shanghai Banking Corporation. Some 136 branches of foreign banks have been established nationally.

Tony Walker, Beijing

Tender for Pemex plant

Petróleos Mexicanos (Pemex), Mexico's state oil monopoly, is issuing a tender for construction of a $1.2bn nitrogen cryogenic plant, the biggest private contract in the company's history.

The plant, which will be built, owned and operated by the private sector, will inject nitrogen into oil wells to maintain pressure during extraction. This will improve oil recovery rates in Cantarell, Pemex's biggest oil field, as well as some other, smaller sites. Eventually the plant is expected to provide 1.5bn cu ft of nitrogen a day.

Three consortia are understood to be bidding for the project. Technical bids have to be submitted by early August. One group is thought to include Bufete Industrial, the Mexican group, and its partner MW Kellogg, as well as Nova Corporation and Marathon. Another is believed to contain Empresas ICA, Mexico's biggest construction group, as well as BOC and West Coast Energy. The third consortium may include Shell, Enron and Mitsubishi.

Daniel Dombey, Mexico City

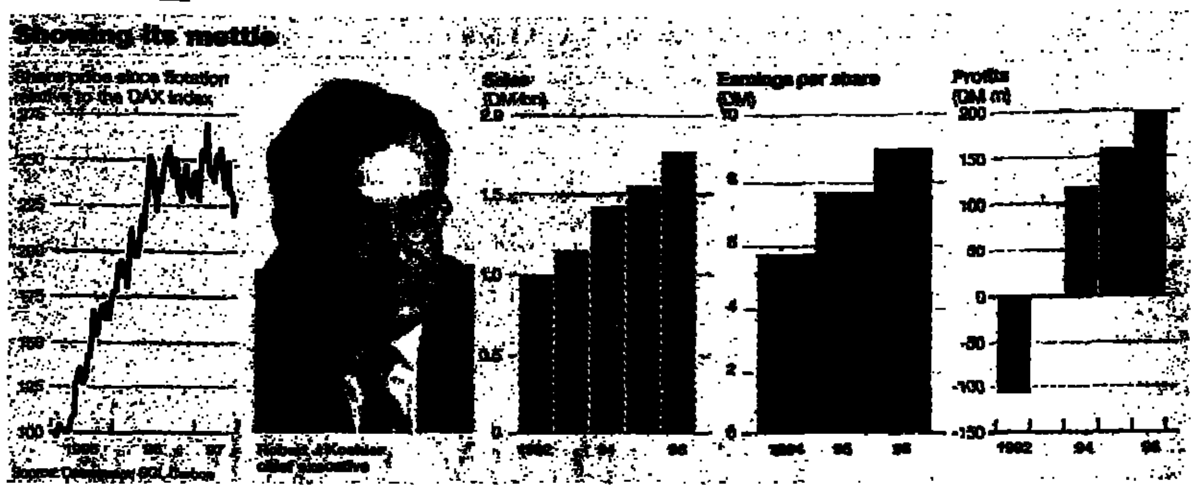
Spin-off sparks SGL Carbon's success

SGL Carbon, once an unprofitable subsidiary of Hoechst, the German chemicals group, has undergone a radical transformation. Today it is the world's leading carbon and graphites group, and one of Germany's most profitable quoted companies.

Since its initial public offering in 1995, the share price has quadrupled, and last year the company became the second of five German groups to list on the New York Stock Exchange. Operating profits were DM324m ($188m) last year, compared with losses of DM108m in 1992, and its return on capital employed was 25 per cent.

Within the past month, the group has been thrust into the market spotlight once again, but this time for less welcome reasons – over allegations that it has taken part in price-fixing in the graphite electrode industry.

SGL Carbon has vowed to defend itself vigorously during an investigation by US and EU authorities, denying that there are any specific factual allegations against it, but the bad publicity has nonetheless given its shares a bumpy ride. The stock has slid from about DM260 earlier this month to DM235 at the close yesterday.



SGL Carbon's dominant customer is the steel industry – where its best-selling products, graphite electrodes, are used in electric arc furnaces for recycling – but it also supplies the automotive, engineering and semiconductor businesses.

For Mr Robert Koehler, chief executive, the explanation for the company's success is simple: globalisation and shareholder value. At a time when many German managers are paying little more than lip service to the notion of shareholder value, the tough-talking 48-year-old is one of the few who has put his words into action.

Under Mr Koehler, SGL Carbon has established a clearer corporate structure, comprising six units grouped under three main business areas – carbon and graphites, speciality graphites and technical products. Senior managers have been given more authority, and the group has adopted US accounting standards, which are stricter and more transparent than German rules.

Furthermore, it was the first German company to introduce stock option schemes – still largely taboo in Germany – and share ownership for managers. Mr Koehler says that in the long term, SGL Carbon's managers will probably own about 20 per cent of the group's shares, compared with about 7 per cent at present.

All this is a far cry from 1991, when Mr Koehler took charge of spinning off SGL Carbon from Hoechst. It was then called Sigri, was heavily in loss and operating only in Europe. "It was simple: either we became the global market leader or we got out altogether and sold up," he says.

In 1992, Sigri merged with Great Lakes Carbon of the US to become SGL Carbon. A year later, it took over the graphite activities of Pechiney of France, and was back in the black. A series of international acquisitions followed, including Vicarb of France and Polgraph of Poland.

"We are now either number one or two in the world in most of the areas we operate in," says Mr Koehler.

The workforce was slashed and most of the group's production moved abroad. That the company might pull out of Germany altogether is "an option which we are keeping a close eye on", he says.

The group's next big step was its stock market debut in 1995 in Germany. "Our biggest problem here was that we weren't a brand name... nobody had a clue what carbon and graphites were. We weren't just bringing a new company to the bourse but a whole new industry."

However, Mr Koehler says the group's efforts to improve shareholder value, as well as its open communication policy and impressive track record, helped attract institutional investors.

Last year's $1bn placement of Hoechst's remaining 50 per cent of SGL Carbon was also a success. About 40 per cent was listed in the US, and foreigners now hold about three-quarters of its shares.

The company is continuing to expand, mainly in the US, Asia and eastern Europe. It is also focusing on its rapidly-growing speciality graphites and technical products sectors, thereby reducing its dependence on its main carbon and graphites business.

Mr Koehler adds that, with prices already several percentage points higher than last year, SGL Carbon should see double-digit percentage earnings growth in 1997, and that the long-term trend is favourable.

"We are a model for spin-offs," he concludes.

Sarah Althaus

Lai Sun plans hotel site revamp

By Louise Lucas in Hong Kong

The Lai Sun group, the diversified Hong Kong property group which last week launched a HK$6.9bn (US$891m) takeover bid for the territory's five-star Furama Hotel, is exploring redevelopment possibilities at the site – although there are no immediate plans to pull down the 516-room hotel.

The company, which also owns the adjacent Ritz-Carlton hotel, said it was looking at ways of increasing value. By tearing down the two hotels and buying the private lane that runs between them, Lai Sun would make available a 45,000 sq ft site in the prime Central business district.

Lai Sun could create a 700,000 sq ft office block on the site now occupied by the two hotels – a size equivalent to Jardine House, the 48-floor building which dominates the territory's skyline.

Analysts argue that Lai Sun would make more money by converting at least one of the hotels – probably the Furama – into offices. But speculation that Hutchison House, an office block on the other side of the Furama, would also be included in the redevelopment, was "pretty remote", given the public road running in between, Lai Sun said.

Other alternatives to the demolition of the two hotels include merging the podium on which the Ritz-Carlton sits with the Furama and transforming it into an office block with adjoining hotel.

However, the immediate intention is to continue running the two hotels as they stand, with existing management and staff. This is in part a reflection of the strong income generated by the hotels, and the fact that the management contract at the Ritz-Carlton – which Lai Sun bought in 1993 – still has a few years before it expires.

Lai Sun is to pay about HK$3bn to buy out the 45.2 per cent stake in Furama Hotel Enterprises now held by the family of Mr Adrian Fu, the hotel group's chairman.

It will subsequently launch a general share offer costing a further HK$3.9bn.

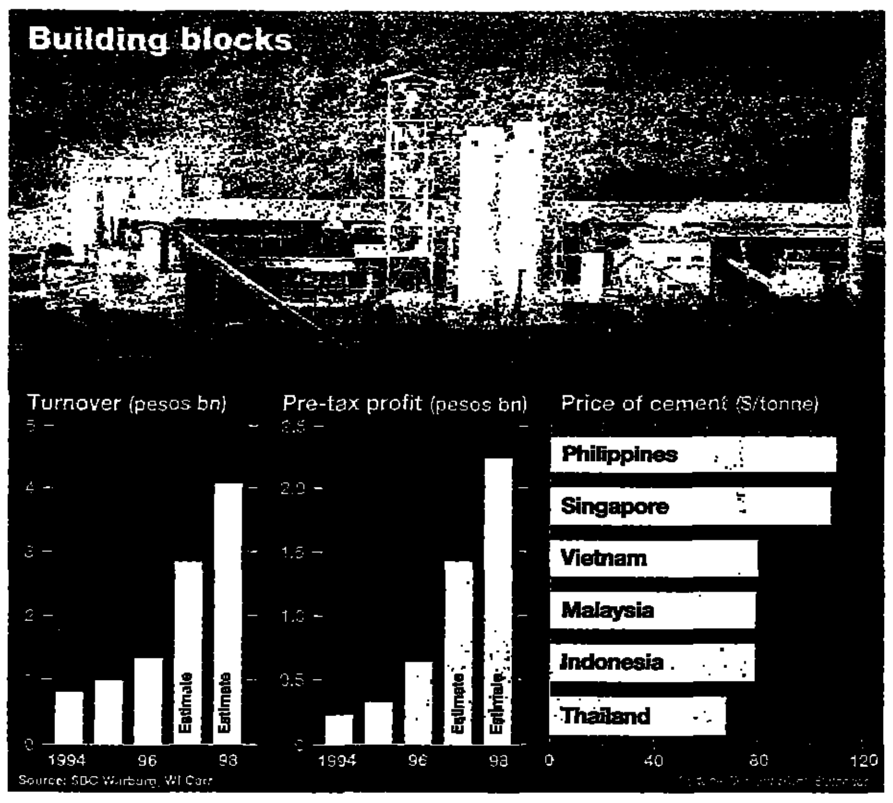
Fortune ignores gloomy outlook

The recent onset of the six-month rainy season in the Philippines is not a good time for the cement business, as the construction industry is forced to pause for breath.

As storms set in around Manila, home to the country's greatest rash of new building, another black cloud on the horizon is the competition posed by cheap Chinese cement imports.

One company ignoring the gloomy climate is Fortune Cement, the sector's leading company. Next month it will complete a new production line which will increase annual production of clinker, the principal raw material for cement, from 500,000 tonnes to 1.8m tonnes.

In terms of capitalisation, $362m, Fortune is well ahead of rivals Seacem and Alsons with market capitalisations of $267m and $169m respectively. It is majority owned by Mr Henry Sy, the Chinese-Filipino tycoon who also owns and runs SM Prime, the country's largest shopping mall chain and its main listed retailer.



Mr Jose Sio, Fortune's chief financial officer, is unfazed either by the prospect of increased competition from Chinese imports or the government forecast of oversupply by 1998.

Imports from China are 10-15 per cent cheaper than Philippine manufacturers' prices, but have an estimated market share of less than 4 per cent. This is because poor local infrastructure does not lend itself to large-scale importation of bulk products such as cement, and distribution is controlled by cement manufacturers. In addition, import tariffs on cement will rise from 3 per cent to 10 per cent in 1998.

"Ours is the only cement plant in southern Luzon," points out Mr Sio, adding: "We have among the lowest, if not the lowest, cost of production of cement plants in the country."

Last year, Fortune's production costs were 43 pesos per 25kg, against an industry average in the Philippines of 51 pesos. The extra capacity and a new power plant should cut costs further.

But analysts point to potential drawbacks for Fortune. First, imports have already eroded margins by forcing local producers, including Fortune, to lower prices 7 per cent to 95 pesos in April.

ING Barings forecasts the country's cement output will more than double by 2000, with demand growing only 56 per cent. It predicts 300,000 tonnes oversupply by 1998, and 1.5m by 1999.

"The country is facing an oversupply and prices are not sustainable," says Mr Colbert Nocom, head of research at ING in Manila. "In a couple of years, cement producers like Thailand and Indonesia will be looking to export. After Vietnam, the Philippines, with its higher production costs, is the next market."

The sector, with 19 cement producers – two accounted for by Fortune – already looks over-populated, particularly as about 40 per cent use the older, more expensive and less efficient "wet" production process.

Another worry is that the group's recently announced first-quarter profits represent only 11 per cent of the full-year forecast of 1.2bn pesos.

Third, there are concerns over possible delays in finishing the new plant, despite assurances from Mr Sio that it would not be delayed by more than a month.

For these reasons, W. I. Carr, the stockbroker, has reduced its full-year earnings forecasts for the company for 1997 and 1998 35 per cent, to 765m pesos and 1.12bn pesos, respectively.

However, with a strong balance sheet and low gearing – it plans to reduce this from the present 46 per cent to zero by the end of 1998 – Fortune looks well placed to withstand a downturn.

The shares reflect this optimism. Fortune shares have subsided only 20 per cent against a sectoral decline of 45 per cent over the past three months.

Mr Sio is not afraid of making bold predictions for the company. "Henry Sy started in department stores and became the country's biggest. I wouldn't be surprised if in three to four years time he'll do the same with cement."

Justin Marozzi

Fort Bonifacio developer revalued

By Justin Marozzi in Manila

The market value of Fort Bonifacio Land, the Philippine consortium developing a new business district in Manila, was downgraded by analysts after the sale of a 16 per cent stake in the project for 5.4bn pesos ($205m).

Metro Pacific, the Philippine arm of Hong Kong-based First Pacific, said on Friday it was purchasing the stake from Filinvest Land, a member of the same consortium, giving it majority control of the project.

The transaction valued Fort Bonifacio Land at 33.8bn pesos. Analysts, who had been valuing the company using prices of developed rather than raw land, had been measuring its worth at about 53bn pesos.

Mr Matthew Sutherland, head of research at Asia Equity, said the sale of the stake by Mr Andrew Gotianun, chairman of the Filinvest group of companies, was a clear sign to the market that its valuation was amiss. He was cutting his valuation for Metro Pacific from 8.4 pesos a share to 6.4 pesos a share.

"I cannot believe that Andrew Gotianun is a man who would sell an asset at between one-third to one-half of its fair market value," he said. "This implies therefore that he's more bearish about the development than the stock market was."

The downgrades follow the announcement last week by Mr Ricardo Pascua, president of Fort Bonifacio Development Corporation, that the group was unlikely to go ahead with plans to launch an initial public offering of 10 per cent of its shares this year because of the poor performance of the Manila stock market. When conditions were right, the offering would be worth about $300m, he said.

At 440 hectares, the Fort Bonifacio project is twice the size of Makati, Manila's leading business district, which it aims to replace.

ASIA-PACIFIC NEWS DIGEST

New World to buy into China airline

China Southern Airline, the Guangdong-based carrier seeking a Hong Kong listing, has secured a pre-flotation commitment from New World Development, the Hong Kong property developer.

New World Development and its infrastructure arm have been active buyers of minority stakes in H-share companies, the name given to Hong Kong-listed China enterprises. Earlier stakes include Beijing Datang Power, in which it took 9.9 per cent, and Beijing Yanhua, the mainland's biggest ethylene manufacturer which is coming to market later this month.

China Southern's flotation has been held up for several reasons, including restructuring and uncertainty within the industry after a number of aircraft crashes in China. However, it is expected to raise some US$250m later this year.

New World said it had not yet worked out the size of stake it would take in China Southern. Hutchison Whampoa, the conglomerate controlled by Mr Li Ka-shing, is also reported to have agreed to take a strategic stake in the carrier. *Louise Lucas, Hong Kong*

Indofood sees 42% increase

Indofood Sukses Makmur, Indonesia's largest noodle maker, is forecasting net profits for 1997 of Rp500bn ($124m) after Rp351.3bn last year. The forecast 42 per cent rise in earnings is slightly lower than an earlier prediction, published in May, which said 1997 net profit would increase by about 45 per cent.

Ms Eva Riyanti Hutapea, chief executive, said Indofood had secured a $250m syndicated loan raised by 38 foreign banks partly to finance its acquisition of 11 companies from the Salim Group. She said the acquired companies' performances were "just on target". Excluding the acquisitions, the company had expected a net profit of Rp402bn this year and sales of Rp3,000bn.

The company set the total 1996 dividend at Rp47.

AFX-Asia, Jakarta

Hindustan Lever eyes merger

Hindustan Lever, the Indian soap, cosmetics and detergents company, said it "may evaluate the benefits of a merger between the company and Pond's India". Both Pond's and Hindustan Lever are part of Unilever, the Anglo-Dutch group. Mr K. B. Dadiseth, chairman, said: "A considerable overlap of business exists with Pond's India, both in personal products and exports. While some synergies have already been leveraged with common selling and distribution systems, there are other synergies which can accrue with a full merger." *AFX-Asia, Bombay*

Ayala to combine shares

The board of Ayala, the Philippines largest holding company, has approved the combining of its A and B common shares, bringing the group into line with reforms adopted by the Philippine Stock Exchange.

With a single price structure, "greater flexibility is created for foreign purchases in terms of cost and access to shares available" in the market, the group said. The move would not result in any dilution of existing shareholdings. The proposal will be submitted to shareholders, the Securities and Exchange Commission and the PSE for final approval.

Ayala A and B shares closed up 0.25 centavos each, at 18.75 and 19 pesos respectively. *AFX-Asia, Manila*

Financial Times Annual Report Panel Service

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AVESTA SHEFFIELD

Avesta Sheffield AB (publ) is one of the world's leading suppliers of stainless steel with an extensive range of products and a well-developed marketing and distribution network.
The Group has manufacturing facilities in Sweden, the UK and the USA. It has sales companies in 26 countries and some 30 agents throughout the world. Avesta Sheffield employs 7,800 people and has a turnover of approximately SEK 17.2 billion (GBP 1.35 billion).
Specialisation in stainless steel and integrated process routes from raw materials to finished products contribute to low costs and superior customer service.

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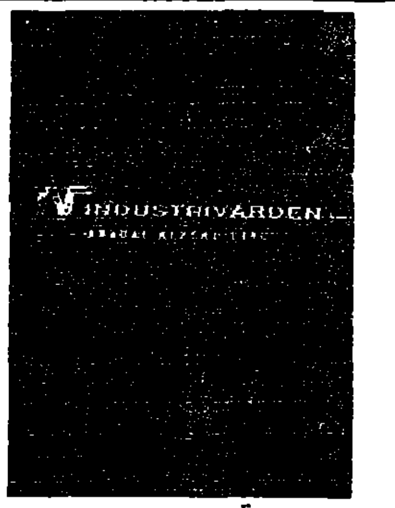

AB INDUSTRIVÄRDEN

AB Industrivärden is an industrial holding company which consists of a portfolio of listed stocks worth about SEK 24 billion, industrial operations and trading operations with a turnover of SEK 6 billion, and a real estate operation. The major holdings in the portfolio of listed stocks are AGA, Ericsson, Handelsbanken, PLM, Sandvik, SCA, Skanska and SSAB. Inductus consists of five companies in the engineering industry including Besam and Thorsman. Indutrade is involved in imports and trading with industrial components in Sweden, Denmark, Finland, the Netherlands and Belgium. Fundament manages real estate consisting of office premises with central locations, mainly in the Stockholm region.

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MoDo

MoDo's profit after net financial items for 1996 amounted to SKr 2,919 million (1995: 5,216 million).
The Group's sales amounted to SKr 20,115 million (22,319 million).
The Group produces and sells fine paper, newsprint and magazine paper, paperboard, sawn timber and pulp.
MoDo is one of Sweden's top exporters. The Group owns production facilities in Great Britan and France, as well as in Sweden. MoDo operates through its own marketing organisations in most European countries and in the USA. MoDo also markets its products via agents and distributors in many other countries.

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PLM

PLM is one of Europe's leading consumer packaging groups. The Group develops, manufactures and markets packaging in metal, glass and plastic. Its customers are primarily European beverage and food industries. PLM has three business areas, Beverage Can Division, Glass Division and Plastics Division, and 1[illegible] factories in 10 countries - Denmark, France, the Netherlands, Norway, Poland, the UK, Sweden, the Czech Republic, Germany and Austria. PLM has its headquarters in Malmö, Sweden. It has 6,000 employees of whom about 80% are employed in the Group outside Sweden. The PLM share was reintroduced to the Stockholm Stock Exchange on November 13, 1995. At year end 1996, PLM had 15,[illegible] shareholders. The 50 largest shareholders own about 83% of the shares. There are almost 15,000 private shareholders who own approximately 10% of the shares. About 8% of the shares are held by foreign institutions and private individuals.

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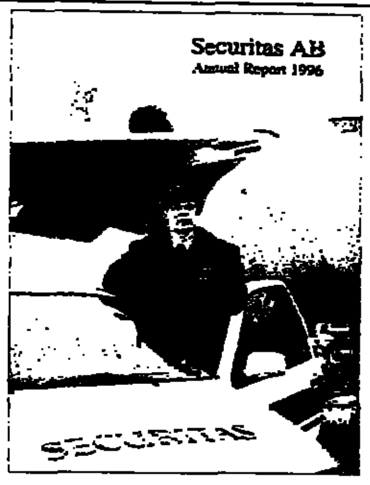


SECURITAS

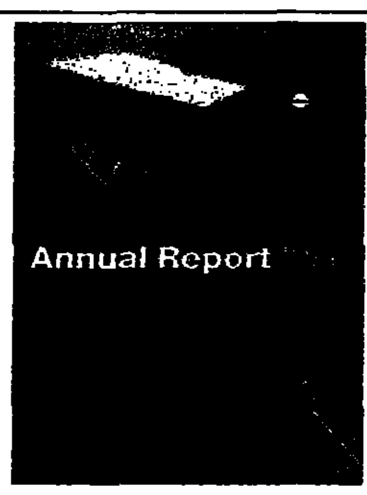
Securitas protects homes, work places and community. Securitas is one of Europe's leading security companies within guarding, alarm and cash-in-transit business. Securitas operates in fourteen European countries and employs approximately 39,000 people. Sales in 1996 amounted to 9,074 MSEK (7,309). Income before taxes increased by 17 percent to 550 MSEK (472).
During the year, Securitas has seen a continued organic growth of 7 percent. Furthermore, Securitas has strengthened its position through acquisitions in Germany and France and established new operations in Great Britain.

38

SCA

SCA is an integrated paper and packaging company with Europe as its primary market. The company conducts operations in hygiene products, packaging and graphic paper. SCA owns 1.8 million hectares of productive forest land and is Europe's foremost user of recycled paper. SCA has over 33,000 employees in more than 30 countries. The share is listed on the stock exchanges in Stockholm and London and is available in the form of ADRs (American Depositary Receipts) in the U.S.
SCA in brief: Net sales SEK 55,405 M (65,317). Earnings after financial net SEK 3,573 M (5,731). Earnings per share after tax SEK 10.71 (17.55). Cash flow from operations, per share SEK 21.30 (25.02).

39



SKANDIA

Skandia is the largest insurance group in the Nordic countries with a 20% share of the Swedish non-life insurance market. The group offers a range of direct insurance, reinsurance and savings products for individuals and businesses.
In special supplements to its financial reports, Skandia has been reporting since 1994 on the hidden assets that exist in knowledge companies. This work has attracted international acclaim, including awards in the USA and the UK in 1996.

Skandia's goal is to deliver security for generations.

40

telia

Operating revenues advanced more than 7% chiefly owing to greater volumes of traffic in the fixed and mobile networks. Income after financial net expanded roughly MSEK 400, to MSEK 3,622. Investments reached MSEK 11,949, more than half attributable to networks and technical platforms in the Nordic countries. Efforts outside Europe mainly went in to mobile communications.
Despite stiffer competition, Telia defended its position in the Swedish market admirably while the Group reinforced its standing in neighbouring Nordic countries.

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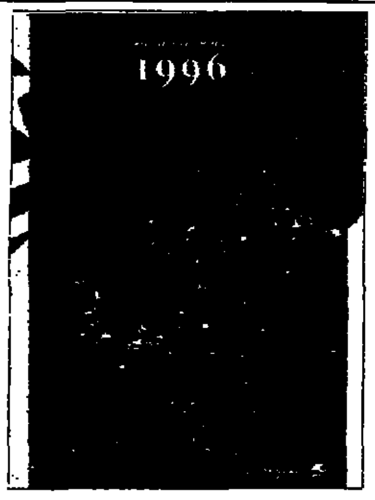
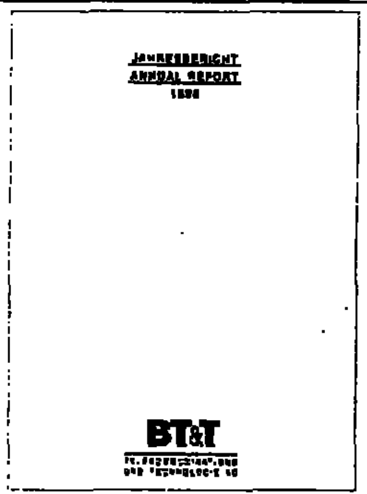


VATTENFALL

Vattenfall is one of the Nordic region's largest energy groups with more than 20 percent of electricity sales in the region. Vattenfall generates and supplies about half the electricity consumed in Sweden and is one of Europe's largest electricity producers. Electricity generation is primarily based on hydro and nuclear power, with supplementary production using other energy sources. Operating revenues amounted to SEK 29,760 M in 1996. Income before tax was SEK 5,357 M. Return on equity after full taxes was 13.4%, and the equity/assets ratio was 37%. Vattenfall has approximately 8,260 employees.

42



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Market capitalisation as per December 31, 1996 CHF 180,00 million
Bearer shares: 1.200.000 nominal value 100.-
Profit: 26,2[illegible] million
Performance 1996: + 28,20 %
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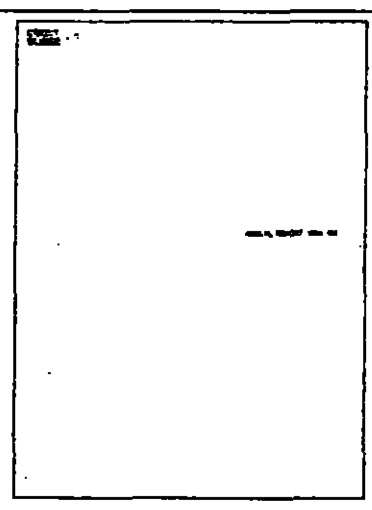

CREDIT SUISSE GROUP

CREDIT SUISSE GROUP is one of the world's leading financial services groups, operating on all continents and in all the world's major financial centres. The Group comprises four business units, CREDIT SUISSE, CREDIT SUISSE PRIVATE BANKING, CREDIT SUISSE FIRST BOSTON and CREDIT SUISSE ASSET MANAGEMENT, each geared to the requirements of specific customer groups and markets. The shares of CREDIT SUISSE GROUP are traded on the stock exchanges of Zurich, Frankfurt, Tokyo, London (SEAQ), Paris (OTS) and New York (ADRs).

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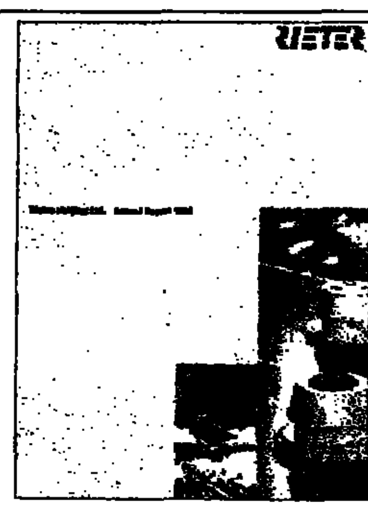

RIETER

Rieter is a Swiss-based group with a global presence and 2,200 million CHF sales in 1996. Its systems and services for the textile, automotive and plastics industries are acknowledged as leaders in their field. The textile machinery division develops and produces machinery and integrated systems for converting fibres and plastics into yarns and for manufacturing man-made fibres. The automotive division develops and manufactures systems, noise control and thermal insulation products and interior trim from fibres and plastics for the automotive industry.

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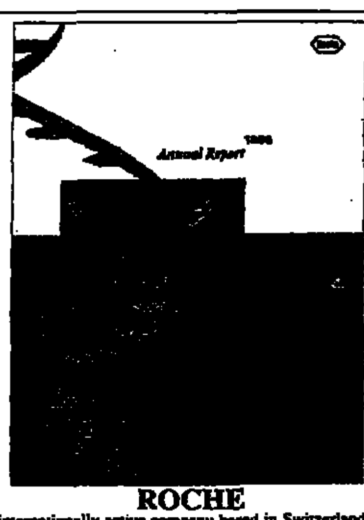

ROCHE

Roche is an internationally active company based in Switzerland that discovers, develops, manufactures and markets high-quality products and services for health care. In 1996 the Roche Group posted consolidated sales of around 16 billion Swiss francs. On a comparable basis, this represents an increase of 8 % in local currencies and 11% in Swiss francs. Net income rose 16% to 3899 million Swiss francs. Roche employs some 50 000 people in four divisions - pharmaceuticals, vitamins and fine chemicals, diagnostics, and fragrances and flavours. Its products are used to prevent, diagnose and treat disease and to enhance general well-being. The Group's expenditure on research and development totalled 2446 million Swiss francs, or 15% of sales. The pharmaceuticals division accounted for 2108 million francs, equivalent to 20% of divisional sales. Roche's innovative strength is based primarily on above-average research and development investment and use of the latest technology. These are decisive factors in the company's continuing success and sustained growth.

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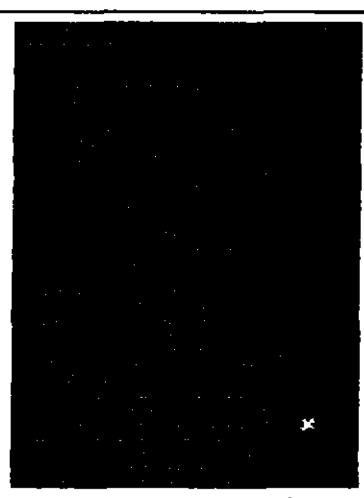

SWISS EXCHANGE

The successful start of fully electronic trading in August 1996 brought the era of floor trading to Zurich, Basle and Geneva to a close. Switzerland's new electronic exchange, the "Swiss Exchange" (SWX) - is now publishing its 1996 Annual Report together with its subsidiary SOFFEX (the Swiss Options and Financial Futures Exchange). In addition the consolidated financial statements (the first time these have been published), this highly informative work contains reviews of trends at SWX, analyses of the economic environment and comprehensive statistics on turnover and market indices.

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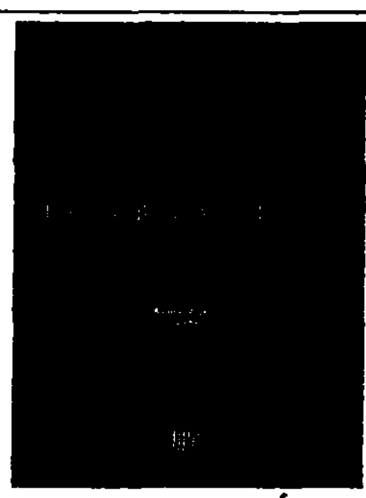

UNION BANCAIRE PRIVÉE, GENÉVE

Union Bancaire Privée, headquartered in Geneva, is one of Switzerland's leading private banks. Specialised in private and institutional asset management, the Bank relies on a strong international presence throughout Europe, the United States, Latin America and Asia, and offers its clients a complete range of financial services and products. Union Bancaire Privée is one of the most highly-capitalised Swiss banking groups in terms of total equity (CHF 1.252 billion) and total balance sheet (CHF 13.407 billion).

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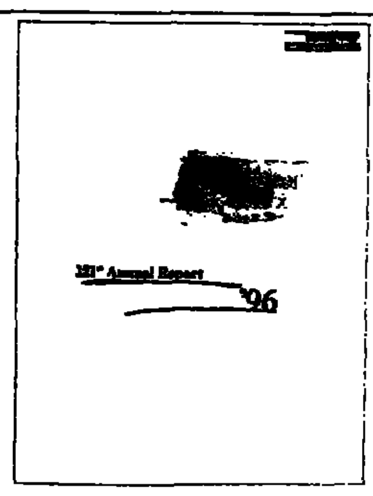

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Unisource sees profits by 2000

By Alan Cane

Unisource, the strategic alliance between the national telecoms operators of the Netherlands, Switzerland and Sweden, yesterday promised profits by 2000 as it unveiled widening losses for last year.

Reporting a net loss of Fl 375.4m ($194m), Mr Jan de Vries, Unisource chief financial officer, said that the results were in line with expectations.

"The deepest part of our investment curve was reached in 1996. We are now on the upward track to break-even. The company expects Fl 10bn revenues by the turn of the century," he said.

Mr Paul Smits, president and chief executive, said he expected the group to move into profit by 2000. However, he stressed that a large financial commitment, such as an acquisition, would affect the timetable.

He emphasised that no such acquisition was currently envisaged.

Unisource's deficit for 1996 was 17 per cent greater than the Fl 319.7m recorded the year before. Unisource said this could be attributed to investment in the expansion of the international backbone network, and to costs incurred in the introduction of new communications services in Europe.

A significant part of these costs was non-recurring, it said.

Revenues, however, grew 85 per cent to Fl 2.43bn, compared with Fl 1.32bn the year before. Capital expenditure was up 19 per cent from Fl 326m to Fl 387m.

The group now has 3,356 employees. Provisions of Fl 130m have been included to cover reorganisation and restructuring.

The results report follow an eventful 12 months for Unisource, which gained provisional approval from the European Commission for the creation of AT&T-Unisource Communications Services.

It also saw the defection of Telefónica, the Spanish national operator, to Concert, the alliance of British Telecommunications and MCI, of the US.

The group has since agreed to merge the international carrier businesses of its members to bind the alliance more tightly.

Mr Smits said Unisource Carrier Services was expected to treble traffic in 1997, compared with 1996. "It is becoming the carriers' carrier," he said.

He said that the current year had started well. AT&T-Unisource, the alliance between Unisource and AT&T, the largest US carrier, had booked more than Fl 300m worth of orders between January and April.

Sales were strong in traditional voice calls as well as advanced services such as frame relay, call centres and the internet.

TV groups tune into Hungary

Concessions for two new national channels are poised to be awarded this week

Rapid growth in television advertising expenditure is pulling western media groups into an increasingly expensive battle for commercial television franchises in eastern Europe.

Hungary, the region's most lucrative television advertising market, is expected later this week to award concessions for two terrestrial national commercial television channels.

The minimum price – $50m for a 10-year concession – is higher than in any other country in the region. Yet three international consortia believe it is worth paying to win a slice of the Hungarian market, where television advertising expenditure rose 18 per cent last year to $188m.

The rival bidders are:

- CLT-Ufa, Europe's biggest broadcasting and entertainment group, in which Bertelsmann, the German media group, holds a 50 per cent stake.

It has joined forces with Pearson, of the UK, owner of the Financial Times and Pearson Television, one of the world's largest independent television production companies; Matav, the Hungarian telecoms operator; and Unicbank, the Hungarian subsidiary of Austria's Raiffeisen bank group.

The four groups have formed a joint venture known as M-RTL, in which CLT-Ufa holds 49 per cent, Matav 25 per cent, Pearson 20 per cent and Unicbank, 6 per cent. It will broadcast as RTL Klub if it is awarded the licence.

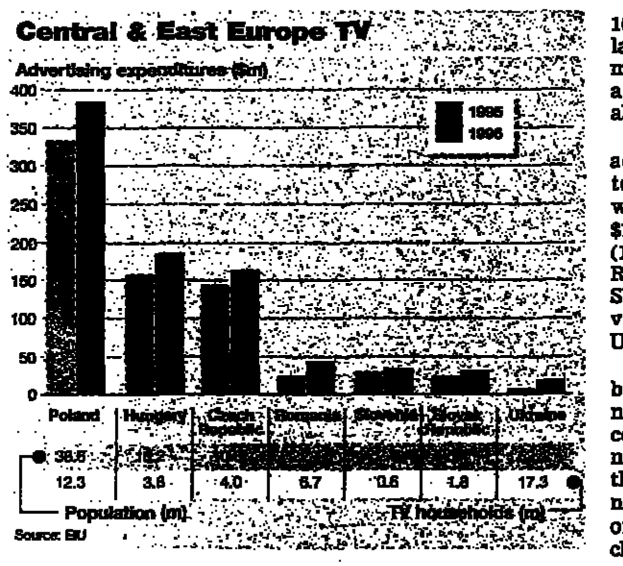
- Scandinavian Broadcasting System, which is 22.8 per cent owned by Walt Disney through its Capital Cities/ABC subsidiary and is quoted on the US Nasdaq stock market.

It is leading a rival consortium which includes MTM Communications, the largest television production company in Hungary, and Tele-München, the German television production company which is also a shareholder in the German stations RTL-2 and TM-3. SBS has a 49 per cent stake in the consortium, with MTM holding 37.5 per cent and TeleMünchen 12.5 per cent.

SBS owns and operates commercial stations broadcasting in Sweden, Denmark, Norway, Belgium and the Netherlands.

- Central European Media Enterprises (CME), the US pioneer of private commercial television in central and eastern Europe.

CME is also quoted on Nasdaq and is controlled by Mr Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune. It holds 49 per cent of a consortium formed with Intercom, the largest film and video distributor and cinema operator in Hungary; Media Com, which invests in and manages Hungarian telecoms and electronic media companies; and DDTV, owned by CME's local partner, Mr György Balo.



Source: BU

While CLT-Ufa and SBS are relative newcomers to eastern Europe, CME has focused on the region.

It has already demonstrated the scale of the profits to be made in terrestrial commercial television in the region. CME claims that it already broadcasts to 84.9m people in six countries, with operations under development giving it the potential to reach a further 32m.

In alliance with local partners, it operates top-ranked television stations in the Czech Republic (TV Nova), Slovakia (Markiza TV), Romania (Pro TV) and Slovenia (Pop TV).

It is engaged in Ukraine through a 50 per cent interest in the Studio 1+1 Group, which broadcasts on the second Ukrainian national channel, UT-2, and in October it will launch a national network in Poland through TVN, its joint venture with ITI TV holdings, the Polish media group.

Until now Hungary has been the unclaimed prize in commercial television in the region. At the forefront of privatisation in many other sectors, it has been a laggard in offering concessions in television and radio.

It is now leapfrogging its neighbours, however, both by being the first to make licences subject to public cash tenders, and by offering two channels to ensure it does not create a monopoly.

With a population of 10.2m, Hungary offers the largest television advertising market in eastern Europe on a per capita basis, worth about $188m last year.

In comparison, television advertising expenditures totalled $385m in Poland with a population of 38.6m; $165m in the Czech Republic (10.3m people); $45m in Romania (22.7m); $35m in Slovenia (2m); $32m in Slovakia (5.4m); and $20m in Ukraine (52.1m).

After the first round of bidding, the Hungarian national radio and television commission said SBS was narrowly ahead of CME for the first commercial channel, with CME slightly ahead of CLT-Ufa for the other channel.

Further concessions have recently been wrung out of the bidders in a second round.

With Hungary seeking membership of both Nato and the European Union, the bids have moved into high-level lobbying, as the consortia have emphasised their German, French, Belgian and US ownership links to press their cases.

"We have been trying to rally our political establishment to our side," says one executive.

Whoever wins will face a frantic three months. Under the terms of the tender, the new commercial channels must go on air within 90 days.

Kevin Done

Publicis row may end up in court

By Andrew Jack in Paris

The youngest daughter of the founder of Publicis, the quoted French advertising agency, warned yesterday that she would start legal action at the end of July to break up the family holding company unless she was allowed to sell her shares.

Ms Michèle Bleustein-Blanchet said in an interview she would be willing to consider accepting a discount to the market value of her 30 per cent stake in Somarel, the family company which in turn controls 38 per cent of Publicis.

However, she said that if agreement had not been reached by the end of July, there would be no possibility of concessions and she would seek to destroy Somarel, which she said had failed to meet its legal obligations as a company.

Her action follows unsuccessful talks with her sister, Ms Elisabeth Badinter, who runs Somarel, in an attempt to sell her shares in Publicis following the death last year of their father, Marcel Bleustein-Blanchet.

She said Ms Badinter had attempted to forbid her to sell her shares in Somarel, the statutes of which give existing shareholders preemption rights if any shares are put up for sale.

Ms Bleustein-Blanchet stressed she had no intention of damaging the company created by her father in 1927, and that she fully supported Mr Maurice Lévy, its chief executive, whose consent she would seek for the sale of her shares.

She said she preferred to find a single investor to buy her stake – which is valued at about FFr900m ($155m) and includes both her share of Somarel and nearly 8 per cent she holds directly in Publicis. She may stand to gain at least 2 per cent more of the company's quoted shares following resolution of the conflict over her father's inheritance.

But she did not exclude the possibility that Mr Lévy himself could buy some of her shares as part of a round-table of investors.

EUROPEAN NEWS DIGEST

Easdaq admits two newcomers

Easdaq, the European stock market for high-growth companies, yesterday admitted two new listings, one of which saw its share price rise 11 per cent on the first day of trading. The two newcomers are Schoeller Bleckmann Oilfield Equipment, an Austrian company specialising in oil and gas drilling, and Lernout & Hauspie Speech Products, a Belgian company offering services such as automatic speech recognition. L&H already has its stock listed on Nasdaq, the US over-the-counter market on which Easdaq is modelled.

Schoeller Bleckmann stock was issued at Sch840 but closed at Sch932 after its first day of trading. L&H shares closed at $25.625, up from $25.25.

The new admissions mean 10 companies are now listed on Easdaq. They will also bolster the exchange's effort to become the pre-eminent European market for smaller growth companies against competition from the Neuer Markt in Germany and the French Nouveau Marché, both of which are hoping to attract new high-tech listings.

Easdaq also announced an initial offering by Topcall International, a Vienna-based supplier of electronic communications systems. Topcall will make a series of private placements and its shares are expected to start trading on July 11. In the year to December 31, Topcall reported operating profits of Sch52m ($4.29m) on sales of Sch210m. *Michael Lindemann*

■ Peptor, an Israeli biotechnology company developing drugs to identify antibodies, is seeking to raise $30m-$35m on the Nasdaq and Easdaq exchanges. Peptor, founded in 1993 by Mr Chaim Aviv and Mr Yoram Karman, two scientists, will sell 2m shares at a nominal price of between $14 and $16. *Judy Dempsey, Jerusalem*

US buy for Dassault Systèmes

Dassault Systèmes, the French computer-aided design and manufacturing specialist, is to buy SolidWorks Corporation, of the US, in an all-share transaction valued at about $310m. The company is to issue 4.85m shares in exchange for all outstanding SolidWorks capital stock and all shares issuable upon future exercise of outstanding options and warrants. The deal is expected to be completed in the third quarter. The US company is a pioneer in developing mechanical design software products for Microsoft Windows applications. Founded in 1993, it distributes its products in 43 countries. Based on expected results for the quarter to June 30, its annualised revenues would be about $25m.

Mr Thibault de Tersant, Dassault Systèmes executive vice-president for finance and administration, said he expected the transaction to be "less than 5 per cent dilutive to earnings in the second half of 1997". *David Owen, Paris*

BNP investors shun offer

Only one-third of the minority shareholders in BNP, the French banking group, have accepted its offer to buy them out of its partly-owned subsidiary BNP Intercontinentale. A statement from the Paris bourse showed that BNP had lifted its stake in BNP-I from 70 per cent to 82 per cent, far short of the 95 per cent required to "squeeze out" compulsorily the residual external investors. The rejection follows a heated annual meeting in May, at which external institutional shareholders criticised the offer as too low, and asked questions about the remuneration of BNP-I's directors and the degree to which they represented the minorities. *Andrew Jack, Paris*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Endesa steps up dividend payout

By Tom Burns in Madrid

Endesa, the government-controlled Spanish power group poised for further privatisation, plans to make a market-friendly increase in its dividend of more than 50 per cent at its annual general meeting today.

"We want to send a clear message about our dividend policy," Mr Rafael Miranda, chief executive, said yesterday. Shareholders will receive a dividend of Pta280 this year, compared with the Pta158 paid out of the 1995 results.

Mr Miranda suggested the 1996 dividend was a taste of what shareholders could expect from the cash-rich electricity generator and distributor. "At present our dividend represents a payout of 44 per cent and the comparable European average is a payout of more than 60 per cent of profits," he said.

Endesa's net income rose 10 per cent last year to Pta165bn ($1.1bn), making it the biggest domestic company in terms of net profits. The group – which ranks second to Telefónica, the telecoms group, in terms of capitalisation on Madrid's stock exchange – had cashflow of Pta440.4bn in 1996, a 44.7 per cent increase on 1995.

Endesa has stepped up its diversification strategy – which has included investments in the domestic water treatment business and acquisitions of power groups in Latin America – with a bid to acquire Retevisión, Spain's second telecoms operator, through a consortium it heads with Stet, the Italian carrier.

The Retevisión contest is likely to be decided within the next three weeks and pits the Endesa-Stet consortium against one backed by France Télécom and Sprint, the US operator.

Endesa's consortium has made a cash bid more than 40 per cent bigger than that of the rival group, and it plans to bring AT&T, the big US telecoms group, into Retevisión should it win the licence.

The dividend lure for investors comes as the government is finalising the sale in October of more than half the equity it owns in Endesa, reducing its 66 per cent stake to about 31 per cent.

At current market prices, Endesa's partial sell-off will dwarf all previous privatisations in Spain and be worth nearly double February's sale of the state's remaining 21 per cent stake in Telefónica.

Although the size and structure of the offering has still to be decided, Endesa believes the government could place up to 35 per cent of the company on the market and that the disposal, while principally aimed at small domestic savers, will include a big tranche for foreign institutional investors.

Financial Times Annual Report Panel Service

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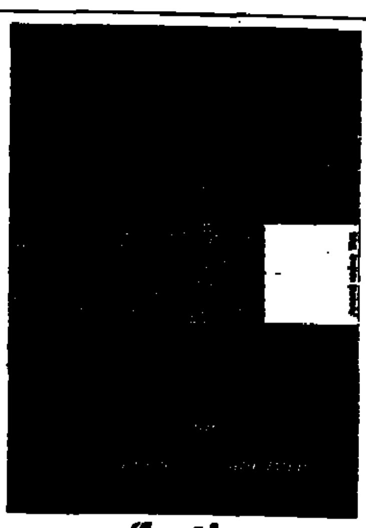

Fortis

Fortis is an international financial group operating in the fields of insurance, banking and investment through more than 100 companies. Fortis has over 34,000 employees. The year 1996 was an exceptionally good one for Fortis. Net profit rose by 16% to ECU 731 million, thus exceeding the earlier forecast. In 1996 total income amounted to ECU 18,790 million. The balance sheet total at year-end 1996 was ECU 141 billion. Investing in Fortis is possible through the shares or depositary receipts for shares in the two parent companies, Fortis AG in Belgium and Fortis AMEV in the Netherlands, each of which owns 50% of Fortis.

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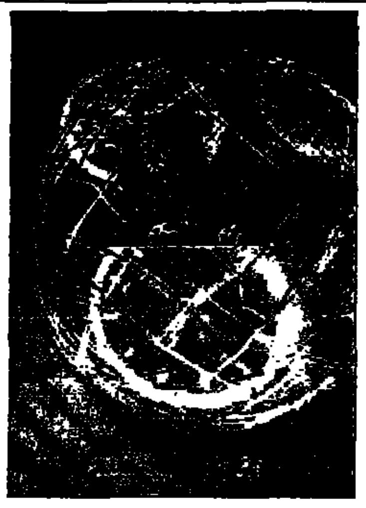

ING GROUP

ING is a company with Dutch roots which has wide experience in the field of financial services. ING is active on a worldwide scale, offering its clients a full range of financial products and services through various distribution channels. The basis of ING's continuity is its financial strength, its healthy profit base, and careful weighing of the interests of its clients, shareholders and employees. In all its activities ING is aware of its social responsibilities. Responsiveness to the needs of the clients, entrepreneurship, professionalism and integrity are paramount in all the Group's activities. The 1996 annual report is also available on CD-Rom and Internet: http://www.inggroup.com

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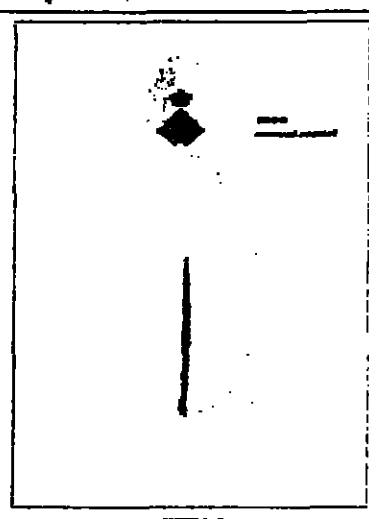

KPN

KPN, the Dutch postal and telecommunications company, offers a wide range of high-quality products and services concentrating on the (inter)national transport of information, goods and valuable items. The company is listed on the Amsterdam, New York and Frankfurt stock exchanges. KPN achieved good results in 1996. Its net income rose by 9.1% to NLG 2,462 million. The dividend has been set at 54.1% of that amount, rounded off to NLG 1,331 million. Its total revenue increased by 10.6% to NLG 21,330 million. Capital expenditures totalled NLG 5,482 million. At the end of 1996, group equity amounted to 45.0% of the group capital. In 1997 KPN expects substantial growth in operating revenues and a satisfactory growth in net income.

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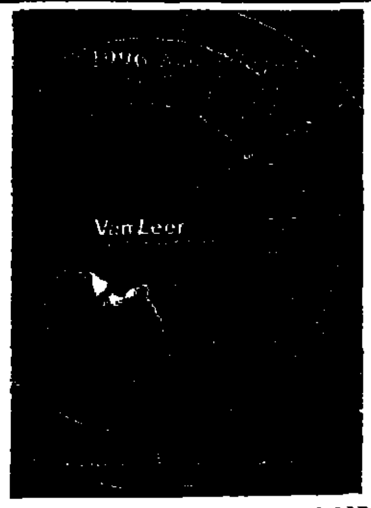

ROYAL PACKAGING INDUSTRIES VAN LEER N.V.

The Van Leer Group is a worldwide manufacturer of industrial and consumer packaging. Its main products are steel, plastic and fibre drums, intermediate bulk containers, closure systems, egg packaging and fruit trays, disposable tableware, printed consumer flexibles, metallized products, folding cartons and tubs & lids for ice-cream and margarine. The Group operates more than 140 factories in 43 countries and 16,000 people work for Van Leer around the world. Sales reached NLG 4.2 billion in 1996. The strategy of Van Leer Group is to extend its market position in the products in which Van Leer is now active in order to strengthen its international supply position.

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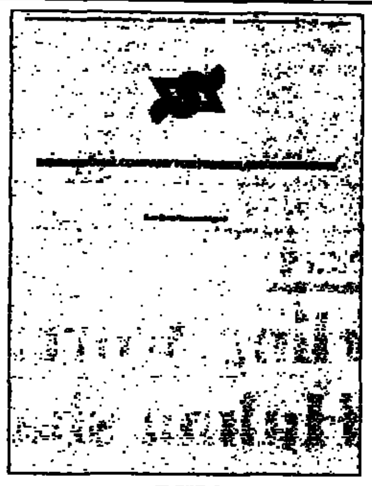

ICFI

Established in 1992.
General Licence of the Central Bank of Russia № 2864.
Clientele - big producing companies and foreign trade organisations.
Primary Dealer of the RF Central Bank in Treasury Notes (GKO) and Federal Loan Bonds (OFZ).
Correspondent network numbers over 500 banks in more than 50 countries.

11, Masha Poryvaeva St., P.O. Box 286, Moscow 107078 Russia.
Tel.: (095) 975 1564 Fax: (095) 207 1400 E-mail: mailbox@icfinf.msk.ru
http://www.icfi.msk.ru

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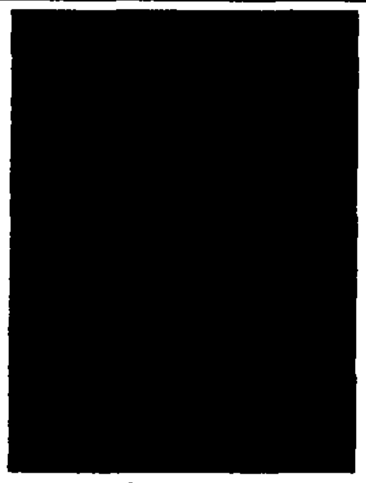

ROSTELECOM

Rostelecom is a Joint Stock Company of international and long-distance telecommunications - the largest telecommunications company in Russia. Rostelecom is one of the first companies in Russia which founded the tradition of issuing public annual reports according to the international standards and one of the first Russian companies which achieved a high international credit rating. By the results of 1996 Rostelecom entered the top ten leaders of the East European companies.
Rostelecom is a highly respected Russian company which plays honestly and fruitfully according to the laws of the market.

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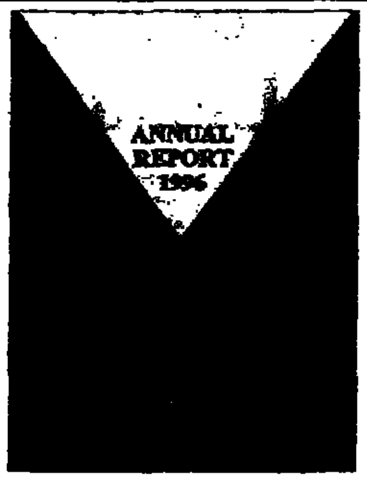

UNEXIM BANK

- Established in 1993.
- General Licence of the Central Bank of Russia № 2301.
- Fourth largest Bank in Russia.
- Maintains stable position in the Banker's "Top 1000 Banks".
- Best Bank in Russia as recognised by Euromoney.
- Eligible foreign custodian since May 13, 1996.
- Agent of the Federal investment programme and governmental programmes.
- Authorised to run specialised auctions in the state-owned equity shares.
- Co-operates with over 20 regional governments of Russia.
- Participation in Russian projects of the World Bank.

11, Masha Poryvaeva St., P.O. Box 207, Moscow 107078 Russia.
Tel.: (095) 232 3727 Fax: (095) 975 2205 E-mail: mailbox@unbank.msk.ru
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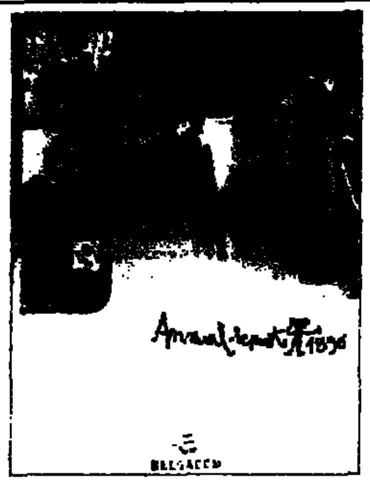

BELGACOM GROUP

Belgacom is the main telecommunications operator in Belgium. With a turnover of 138.7 billion BEF in 1996, the Group posted a record net profit of 13 billion, an increase of 21%. At the end of 1996, Belgacom had 26,196 employees, 1,276 of whom were employed in its two consolidated subsidiaries: Belgacom Mobile and BDS (directories).
The major events in 1996 were: ● Finalization of the strategic partnership agreement between Belgacom and the ADSB Telecommunications consortium; ● Implementation of new structures; ● Agreement with Equant network services to provide Belgacom World Solutions; ● Agreement with banks and the banking industry; ● Modern management of our requirements and financial resources; ● Diversification strategy.

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PETROFINA

PetroFina is an international integrated oil and petrochemical Group active in all sectors of the oil industry: exploration and production, transport, refining, petrochemicals sales of oil and chemical products, research and development. The Group has also activities in paints and coatings and in oleochemicals. Based in Brussels (Belgium), the Group has a European dimension, a strong presence in the United States and a world coverage. It employs approximately 13,500 people in some 150 affiliates located in 44 countries. In 1996, the PetroFina consolidated net profit was BEF 16.0 billion (BEF 690 per share), compared with BEF 11.6 billion in 1995 (BEF 500 per share), representing an increase of 38%.

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SOLVAY GROUP

A Passion For Progress
http://www.solvay.com

Solvay is a chemical and pharmaceutical Group, with consolidated sales amounting to USD 8.8 billion in 1996. Solvay operates in 41 countries, employing more than 35 000 people spread across more than 400 establishments. Solvay's strategy is to be a world leader in its five sectors of activity - Alkalis, Peroxygens, Plastics, Processing and Health, to improve the quality and added value of its products and services through continuous and cost-effective innovation, while also opening new geographical markets for them, mainly in the USA, Asia and Central Europe.

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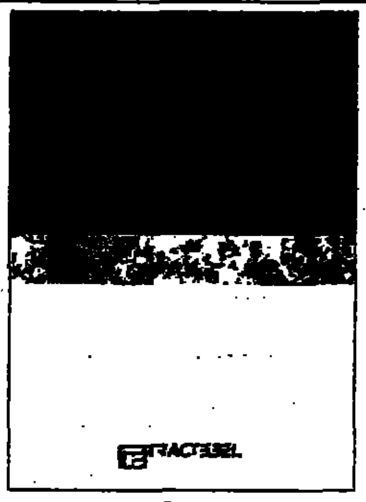

TRACTEBEL

TRACTEBEL supplies more than 23,000 megawatts of electricity to customers world-wide. But the company is generating much more than just that. Tractebel is active in over 100 countries with interests that range from electricity and gas through to communications, technical installations, waste management and engineering services. By building on the Group's diverse skills and integrating a broad range of expertise, Tractebel has laid the foundations for successful long term growth. Having developed a wide international network, Tractebel is clearly a world class utility and industrial services powerhouse. It has all the technical, financial and human resources necessary to implement a dynamic strategy that will maximise value for investors. Indeed, total shareholders' return has been rising steadily and over the last five years has averaged 17.35% per annum.

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SONAE

In 1996 SONAE Investimentos decided to demerge the businesses held by its sub-holdings SONAE Indústria (wood based products) and PARGESTE. After the demerger SONAE Investimentos, the Portuguese leading company in its sector, focused in four retail businesses: Hypermarkets and Supermarkets; Specialised Retail; Retailing Real Estate / Shopping Centres and Retailing of Financial Products. The 1996 Annual Report explains the SONAE business strategy and includes all main facts and figures related to all SONAE businesses (previous to the demerger).

Key Figures (ECU millions)	1995	1996	% change
Turnover	1862	2321	+ 26%
Operational profit	102	116	+ 16%
Net Profit (Group share)	67	106	+ 61%
Shareholders funds	489	537	+ 11%

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OUTOKUMPU GROUP

Outokumpu is a versatile and highly integrated metals group. To complement its traditional business in the production of copper, nickel and zinc, the Group has systematically during its history built up a strong and fully integrated stainless steel production chain based on in-house chromium production, developed extensive copper products operations and secured a position at the forefront of the industry in the sales of mining and metallurgical technology. Outokumpu Oy's shares are quoted on the Helsinki Stock Exchange and on SEAQ International in London.
Internet home page at http://www.outokumpu.com

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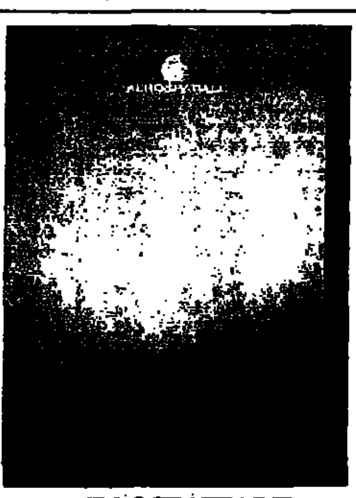

AEROSPATIALE

In the aerospace industry, the future belongs to players with long-term vision. Aerospatiale, a European company with sales of over FRF 50 billion and 38,000 dedicated employees, is a leader in this global market. The extensive skills built up over 30 years of multi-national partnerships make Aerospatiale a pivotal player in the European aerospace industry, now being restructured and consolidated.

Aerospatiale took a major step forward in 1996. All business segments showed strong recoveries, as orders rose 61% to build the backlog to FRF 129.9 billion at year end, and Aerospatiale swung back to the black, posting a net profit of FRF 812 million. These results clearly reflect the solid outlook for long-term profitability at Aerospatiale.

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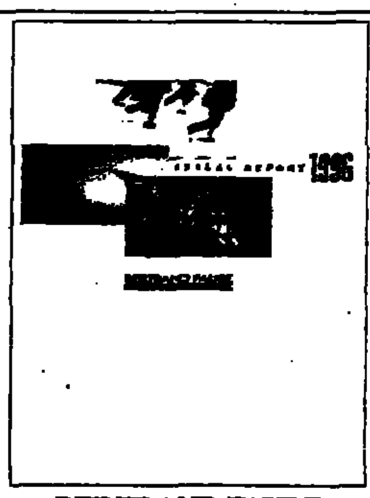

BERTRAND FAURE

Bertrand Faure ranks among the major world producers of automotive seats and occupies the number one position in the European market. The Group is also involved in aeronautics (Ratier-Figeac) and luggage (Delsey). In 1996, it had sales totalling FF 13,871 million, of which 90% was from automotive seats. Bertrand Faure is located in 20 countries and employs over 16,000 people working at 75 locations. The automotive seat business, the Group's core business, is growing principally due to globalization (70% of sales were earned outside France) and to Research and Development efforts (5% of sales). Thus, the Group is strengthening its positions with car manufacturers and gaining new market shares. Bertrand Faure is listed on the Monthly Settlement Market of the Paris Stock Exchange and is included in the SBF 120.
Internet: http://www.bertrandfaure.com

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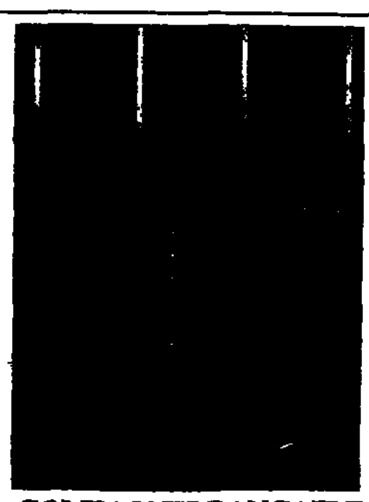

COMPAGNIE BANCAIRE

One of the leading European banking groups of companies specialising in providing financial services to individuals and businesses.
Compagnie Bancaire parent company co-ordinates strategic planning. It is also responsible for funding the Group's lending activities. The Group has already set up operations in 13 countries outside France.

1996 Financial Highlights

Total loans managed:	FF 218.6 billion	US$ 41.7 billion
Saving funds under management:	FF 96.3 billion	US$ 18.4 billion
Consolidated net profit (loss)		
- including minority interests:	(FF 468 million)	(US$ 89 million)
- after minority interests:	(FF 1,230 million)	(US$ 235 million)

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Terminals business faces challenge from two-year old company

Internet threat to Reuters

By Nicholas Denton

Reuters faces a fresh challenge with the disclosure yesterday by a two-year old UK venture that it can access market prices from the financial information giant using an ordinary PC connected to the internet.

Display.IT, which is listed on London's over-the-counter Ofex market, has developed software which allows users to access Reuters data without direct connection to the company's proprietary network.

The product is the latest and most aggressive assault by new entrants using internet technology into the market for financial data, dominated by "vendors" such as Reuters, Bloomberg and Dow Jones Markets, formerly known as Telerate.

Start-up companies such as New York Quotes have offered customers access to some basic real-time prices over the internet. But data from larger vendors is still distributed over costly private networks.

At least one large international investment bank, is testing the Display.IT system. Reuters legal department is understood to be examining the group's options.

"We have no agreement with this company for the display of Reuters data," said Reuters. "It is therefore somewhat difficult to imagine how the company can disseminate our proprietary data."

Display.IT said buyers of its software will still have to pay the going rates for data from Reuters, which supplies foreign exchange rates and other prices, but that they will more easily be able to bypass Reuters hardware.

Increasing use of low-cost internet services will further depress revenues from renting dealing room hardware.

Investment banking spending in this area is scheduled to fall this year to £800m ($1.3bn) from £1.1bn in 1996, according to Kinsey Consulting, a research firm.

Reuters charges about £1,210 a month for a full set of data displayed on a dedicated Reuters Terminal, but receives only £350 per user for supplying the data alone.

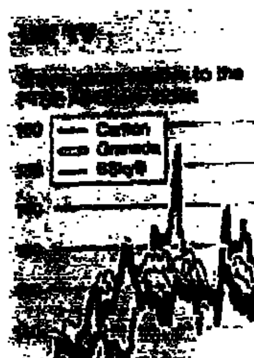
The bulk of the group's annual revenues, which reached £2.9bn last year, comes from the sale of data, news and transaction services, none of which are directly affected by the Display.IT move.

However, Reuters and its Silicon Valley subsidiary Tibco also design and install information management systems for banks' and brokerages' financial trading rooms, which accounts for about 9 per cent of revenues.

Reuters is already distributing data over in-house corporate networks using internet technology. Reuters has concerns about the reliability of the public internet, but it has the technical capacity to offer the same access as Display.IT.

LEX COMMENT

Digital TV



This is not the end of BSkyB's dominance of UK pay-television but it is probably the beginning of the end. Slowly but surely, its grip on both distribution and content is relaxing. The era when the satellite group controlled access to most pay-TV eyeballs will soon be over. Not only is cable signing up more customers than satellite but digital terrestrial TV will eventually be a significant competitor too – but BSkyB has had to leave British Digital Broadcasting, the winning consortium, because of competition concerns. BSkyB will still make money from supplying its popular sports and film channels to BDB and cable. But without control of distribution, the days of supernormal profits are numbered.

BSkyB does not own football teams or film studios; it merely buys TV rights, packages them into channels and arranges distribution. The Premier League, for one, has woken up to the fact that it could cut BSkyB out as the middleman when its current deal expires in 2001. Moreover, regulators seem set to insist that distributors have greater choice over which BSkyB channels to buy, rather than having to take them as a bundle.

In a more competitive era, the main driver of success in TV will be content. In that context, merely winning the digital terrestrial franchise – however gratifying to Carlton and Granada, BDB's two remaining shareholders – is not a licence to print money. Their real challenge will be to make programmes people want to watch.

Grade pledges adventurous First Leisure

By Scheherazade Daneshkhu

Mr Michael Grade, newly installed executive chairman of First Leisure, yesterday promised to drive growth by encouraging new ideas. "We're not as radical and adventurous as I'd like us to be," he said at the results briefing.

His exhortation to the company to innovate followed a disappointing first half in which falling bingo attendances led to a 25 per cent drop in turnover at existing clubs and a £1.2m loss in that division.

This was the main reason for a 5 per cent decline in group pre-tax profits, from £18.1m to £17.2m ($28.4m) for the six months to April 30.

Disappointment at the results and at news that second half trading had fallen "slightly short of expectations" sent the shares down 21p to 315p.

Mr Grade said management had become defensive and slow to roll out new projects. "It's been a little tentative – like Sam Goldwyn once said: he'd never put on a new pair of shoes until he'd worn them for at least a year. We've got to break out of that."

The former chief executive of Channel 4 took over this month from Mr John Conlan, who had been chief executive for 14 years. He ruled out taking the company into film or television production, saying he wanted to get people out of the home.

Group turnover rose 7 per cent to £88.8m during a half in which demand was steady, with little evidence of a consumer boom. However, the business was well placed to benefit from an improvement in consumer confidence spurred by building society windfalls.

All the divisions would be overseen by Mr Mike Payne, an executive director given the new role of managing director, operations. The changes would result in a £2.4m second-half charge.

Profits in the sports division rose by 14 per cent to £7.9m on turnover up 4 per cent. In the nightclubs and bars division, profits rose by 7 per cent to £11.3m on turnover up 7 per cent.

Net debt rose to £82.2m (£81.9m), giving gearing of 28 per cent.

Brendan Corr

Michael Grade: management has become too defensive

Stormy AGM for Sears board

By Peggy Hollinger

Sears shareholders yesterday attacked the board of the retail conglomerate for "blatantly rewarding failure" by increasing directors' pay and paying £465,000 ($767,250) in compensation to former chief executive, Mr Liam Strong.

At an edgy and sometimes angry annual meeting in London yesterday shareholders accused the board of turning in a "disgraceful performance" in recent years.

"The total value of directors remuneration has increased by £144,000 this year, while my shares have fallen in value by half under your guidance," said one shareholder. "What have they been doing over the past five or six years while the company has fallen apart?"

Mr Strong, who quit in April after severe criticism from investors for failing to revive the group during his five years in the post, was not present to hear complaints about his performance or his compensation.

But he was not the only one targeted by the 400 investors gathered in London's Marriott hotel. Lord Tebbit, along with his fellow non-executive directors, was accused of failing shareholders and faced considerable opposition to his re-election.

Shareholders complained about the lack of retail experience on a board which has presided over a 40 per cent decline in Sears' share price over the past two years.

"I would still like to know what Norman Tebbit does for a company like Sears," said one investor.

Investors were not in the mood to be placated by the defence of the board mounted by Sir Bob Reid, chairman. "We have been faced with a corporation that is deteriorating and taken structural action to put that right," he said. "It is a difficult situation."

Nor were they reassured by his promise that value would be maximised from the demerger of Selfridges, the sale of mail order group Freemans, and the closure or sell-off of the lossmaking footwear operation.

There was little good news for investors to take home, with evidence of a further slowdown in current trading. Sir Bob reported that sales in the first 19 weeks had increased by 2.5 per cent against 5.3 per cent in the first 11 weeks.

Sir Bob offered one consolation for his shareholders, albeit in an unfortunate attempt to defend his former chief executive. "Liam Strong came to us from British Airways and, since he left, that business has gone from strength to strength." It wasn't long before some shareholders were urging Sir Bob to seek compensation from BA for taking on the former marketing director.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alba	Yr to Mar 31	185.9	(169.2)	9.75	(10.42)	15.11	(17.02)	4.75	Oct 27	4.75	6	6
Allied Irish ♣	6 mths to June 30	-	(-)	-	(-)	-	(-)	6.8	Sept 24	5.95	-	15
Bandt	Yr to Apr 6	120.7	(121)	4.821L♠	(2.22)	3.7L	(1.7)	0.8	Sept 12	0.8	1.1	0.8
Chloride	Yr to Mar 31 ★	126	(128)	11.5♥	(6.97♥)	4.14	(2.19)	0.47	Aug 22	0.317	0.65	0.45
Clayhithe	Yr to Mar 31	33.2	(33.1)	2.15♥	(2.11)	9.8†	(9.1)	2.57	Aug 22	2.57	3.45	3.45
Domino Printing	6 mths to Apr 30	55.3	(51.6)	4.1	(4)	10	(8.6)	4.4	Sept 5	4	-	11
East Surrey Hldgs	Yr to Mar 31	48.1	(47)	18.4	(15♠)	26†	(24.9)	7.2	Aug 1	6.2#	10.8	9.3#
Evans of Leeds	Yr to Mar 31	27□	(26□)	12.6	(11.5)	8.03	(6.43)	2.33	Aug 15	2.12	3.39	3.08
First Leisure	6 mths to Apr 30	88.8	(82.9)	17.2	(18.1)	7.61	(8.15)	2.64	Oct 31	2.51	-	8.44
Floral Street Φ	6 mths to Mar 31 ★	10.2	(8.07)	0.432	(0.357)	12.6†	(12.6)	-	-	-	-	1.5
Halma	Yr to Mar 29	200.1	(173.7)	37.1	(33.6)	9.35	(8.58)	1.868	-	1.556	3.078	2.564
Hampson Inds	Yr to Mar 31	104.2	(105.8)	7.01	(4.89L♠)	4.66	(9.09L)	1.85	Oct 1	2.25	2.45	2.25
Hewetson	Yr to Mar 31	61.6	(44.1)	2.53	(0.813)	10.62†	(3.33)	4.15	Oct 1	1.75	5	2.5
Majestic Wine Φ	Yr to Mar 31	49.8	(40.1)	1.44♠	(1.24)	7.09	(9.74)	3.5	Aug 8	-	3.5	-
Masthead	Yr to Dec 31	69.5■	(83.6■)	8.78♠	(2.16)	14.1	(3.4)	10	Aug 29	-	12.7	3.2
Novo	Yr to Mar 31	17.4	(17.7)	3.3	(2.93♥)	4.51	(3.81)	1.1	Oct 2	1	1.6	1.4
Photobition	Yr to Mar 31	23.4	(16.9)	4.11	(2.9)	26.2	(18.7)	4.2	Oct 3	3.9	7	6.5
Sterling Publish'g	Yr to Mar 31	28.5	(38.6)	2.56♥	(3.48L♠)	3.3	(6.6L)	nil	-	nil	nil	nil
Vendôme Luxury	Yr to Mar 31	1,456	(1,467)	247.5	(257.7)	0.265	(0.277)	6.78	Sept 16	6.63	10.4	10.24
Willoughby's	6 mths to Mar 31	6.12	(8.09)	1.05L	(0.21♥)	10.2L	(1.6)	nil	-	1	-	2.5
Wilshaw	Yr to Mar 31	53.9	(52.6)	5.02	(5.12)	3.55†	(3.71)	0.55	Oct 2	0.55	0.85	0.85

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Asset Management	6 mths to Mar 31	109.3	(102.1)	0.085	(8.99)	0.77	(0.14)	-	-	-	-	0.7413
Schroder UK Growth	Yr to Apr 30	139.7	(131)	8.24	(6.63)	3.7	(4.94)	1.8	July 31	3.2	3.3	4.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. #Equivalent after share subdivision. □Gross rental income. ΦAim stock. ■Gross premiums written.

NEWS DIGEST

Sterling worries hit Halma shares

Worries about the effect of the strong pound on future earnings helped to knock 14 per cent off shares of Halma yesterday, as the specialist engineering group blamed problems in two divisions for a lower than expected rise in profits last year. It said the strong currency and the effects of a five-month strike in New York by lift service engineers was behind trading difficulties at its two units making fire detectors and specialist lift sensors. Between them these account for about 20 per cent of sales.

Halma's pre-tax profits for the year to March 29 rose 10 per cent to £37.1m ($61.2m). Sales grew 15 per cent to £200m (£173.7m). The shares ended down 37½p at 162½p. One analyst said: "Even a quality stock like Halma is not invulnerable to the impact the rising pound is having on the engineering sector."

A final dividend of 1.868p makes a total of 3.078p, up 20 per cent. This is the 19th consecutive year in which Halma has raised its dividend by 20 per cent or more – the longest such run by any UK quoted company. Earnings per share increased 9 per cent to 9.35p.

Mr David Barber, chairman, said that leaving aside its Apollo fire detection and Memco lift sensor divisions, the company had "continued to prosper". *Peter Marsh*

SB halts final stage trial

SmithKline Beecham, the UK's second largest pharmaceuticals company, has stopped a final stage trial of a rheumatoid arthritis drug because it appeared to be damaging patients' immune systems.

SmithKline Beecham shares fell 19p to £10.48½. Shares in Idec, a US biotechnology company with which SmithKline is developing the drug, were down $2¾ to $23¾ at lunchtime.

The drug, code-named IDEC-CE9.1/SB-210396, was in Phase III trials, the last and most expensive before a drug is submitted to health regulators for approval.

Patients taking the drug were found to have surprisingly low levels of blood cells called CD4 cells, an important part of the immune system. Rheumatoid arthritis is an immune system disorder and the drug is designed to inhibit CD4 cells.

SmithKline said it had a follow-up drug with Idec in Phase II trials that showed more promise. *Daniel Green*

Chloride on acquisition trail

Chloride, the international electronics group, is planning up to £50m ($82.5m) of acquisitions following the sale of the last of its battery businesses.

The company decided nine years ago to move out of batteries, the product for which it was best known, but the last remaining part of its worldwide operation – Chloride Egypt – was not sold until last year.

The profit on the disposal, together with an £18m pension surplus refund, left it with net cash of £22.9m at the March 31 year-end. With net assets of £47.6m, it said it could afford to borrow a further £30m-plus. It would like to expand the largest division, Chloride UPS, which makes uninterruptible power supply units, in the US.

Candidate for WH Smith post

Mr Keith Hamill, finance director of WH Smith, has emerged as a candidate to succeed Mr Bill Cockburn, who resigned as chief executive of the retail group on Monday.

Mr Jeremy Hardie, chairman, said he was considering internal as well as external candidates. Analysts believe Mr Hamill is the best-placed person within the group.

Mr Cockburn brought in Mr Hamill, 44, a year ago. He had been unemployed since leaving an equivalent post at Forte, following the takeover by Granada Group. He had gained credit for his role in Forte's defence during the hostile bid battle. Following a 35p fall on Monday, Smith shares closed down a further 9p at 367½p yesterday. *Christopher Price*

Mid-Ocean buys Brockbank

By Christopher Adams, Insurance Correspondent

Mr Mark Brockbank, a leading Lloyd's of London underwriter, is poised to make £19m ($31m) from selling his stake in the Brockbank group to Mid-Ocean, the Bermuda-based reinsurer.

Shares in Brockbank jumped 24 per cent to 672½p yesterday, after Mid-Ocean made an agreed bid to buy the shares it does not already own in the Lloyd's insurance group for 696p each.

The deal values Brockbank, which owns one of the largest managing agencies in Lloyd's, at £85.5m.

Mid-Ocean has a 51 per cent controlling stake in the firm, following a deal two years ago when it injected £50m of capital into the company.

Mr Brockbank, chief executive of the Brockbank group, has a 22 per cent stake in the company. He would swap this for restricted shares in Mid-Ocean, which he would be unable to sell for three years. He is on a three-year rolling contract.

Shareholders can choose to receive Mid-Ocean shares instead of cash. There is also a loan note alternative.

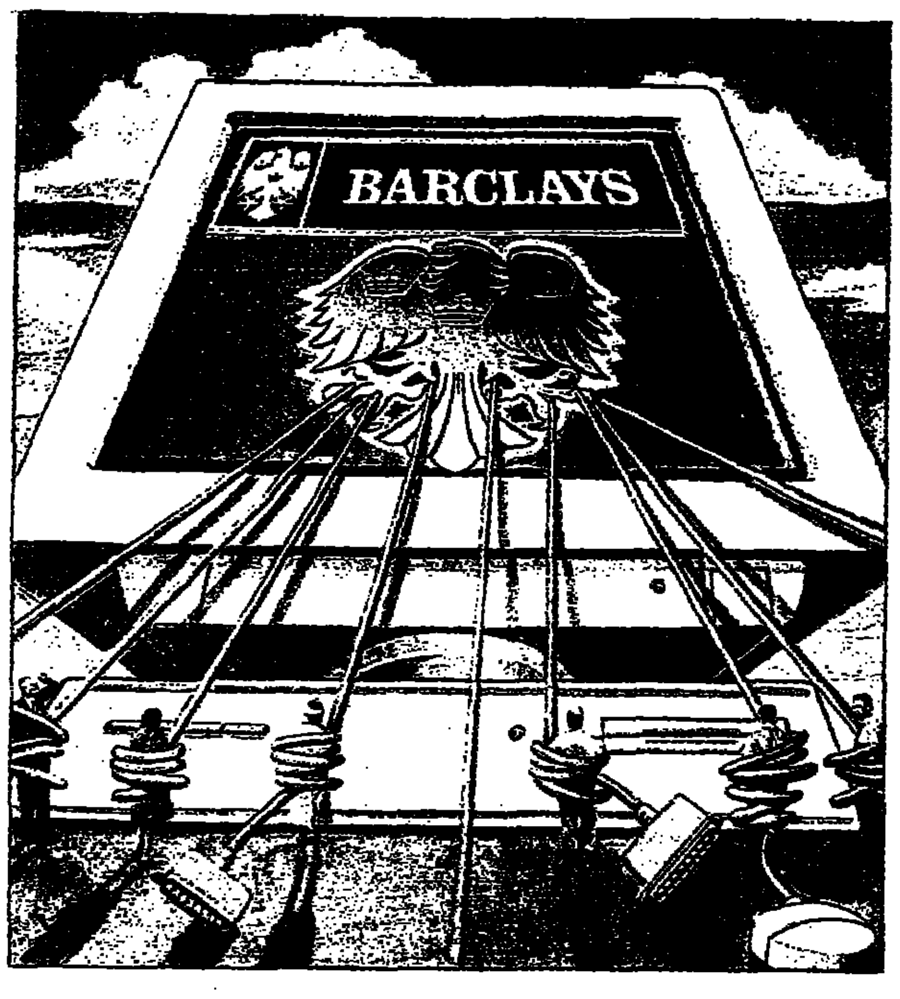
Mid-Ocean decided to buy the rest of Brockbank, which underwrites a diverse book of risks ranging from marine to space insurance, after Lloyd's last year successfully completed a plan to rid itself of billions of pounds in old losses.

"We were seeking to diversify the portfolio. We took the view that in Bermuda we would only be able to write limited amounts of business," said Mr Michael Butt, chief executive of Mid-Ocean.

Online banking · **Nicholas Denton**

Net pays dividends

The balance may soon tip from bespoke services to the internet



Nothing dates as rapidly as a vision of the future. Such a vision, a picture of online banking, is now plastered across Britain on billboards. The image, an advertisement for Barclays Bank's new PC banking service, is modern enough: a computer keyboard representing, the slogan claims, "the keys to your bank". But the concept behind it is coming increasingly into question.

For Barclays' electronic banking service is proprietary. Subscribers must use special Barclays software and dial into a private network to access their accounts. In the 1980s, when US banks such as Citibank and UK banks such as Bank of Scotland pioneered online banking, this was standard. Now, with the spread of internet standards, it appears outmoded.

Barclays is not alone in its approach: other banks, such as HSBC, also plan bespoke services. Moreover, the electronic banking market, for which banks are competing in the design of their systems, is important. In the US alone, the number of households using online banking services, 2.5m in December 1996, is projected to rise to 18m by the end of 2002, according to Jupiter Communications, a US market research company.

It is by no means obvious that these customers will opt overwhelmingly for internet access to their accounts. Only a small proportion of PCs in countries such as the UK have internet access. Barclays, which estimates 35 per cent of UK current account holders have a PC at home, believes only 800,000 of them have access to the internet there.

Second, many users, influenced by newspaper articles about computer hackers breaking into banks' computer systems, are concerned about the security of financial transactions on a public network such as the internet. "The perception is probably more important than the reality," says Mike McManus, managing director of current and savings accounts at Barclays. "But it is an issue for consumers."

Third, the internet is slow. Citibank, the leading exponent of proprietary online banking with about 400,000 subscribers, claims a response time of two seconds compared with 15 seconds over a circuitous route on the often congested internet. Moreover, a graphically rich interface of a virtual branch, which can be installed on a PC with a bank's own proprietary software, must be downloaded over a telephone line each time an internet user dials up.

Finally, software on the user's PC, whether a bank's own or a personal finance package such as Microsoft Money or Quicken from Intuit, can at present perform functions that an internet service cannot. For instance, it can integrate a user's banking transactions with records of cash purchases, and express the pattern of income and outgoings in a chart.

But any edge that proprietary software enjoyed is being swiftly eroded. Internet usage is growing about 10 per cent a month in the UK (office and home), and the security of transactions over the public internet is improving as strong encryption becomes embedded in internet browser software, such as Netscape Navigator.

Moreover, as internet access rates increase, first with the introduction of the latest modems working at 56 kilobits per second (kbps) and later with the adoption of technologies such as cable modems, speed will become even less of an issue. The Java computer language, which facilitates the automatic downloading of small applications on to a PC, should allow banks to make their internet offerings more sophisticated.

Even in its present immaturity, the internet has several clear advantages as a channel. A user can, with a password, access the service from any PC connected to the internet, from work or on an overseas trip. And the bank need not bear the cost of a private network to carry a customer's requests from the access point to the central computer.

"It is truly the lowest cost of all the channels," says Dudley Nigg, head of online financial services at Wells Fargo of San Francisco, a market leader with more than 300,000 online banking customers. "The customer pays the freight."

More importantly, internet banking is convenient for both user and bank in that it requires no software installation. A PC owner with a browser such as Netscape's Navigator and an internet account, both of which are increasingly included in the purchase of a machine, can sign up for an online account simply by filling in an online form.

Ease of use matters, says one electronic banking executive, because consumers are fundamentally lazy. Harking back to his former career in cable television, an industry which was constantly judging the response of consumers to onscreen offers, he says: "The buy rate goes up tenfold if you just have to press 'yes' on the remote control rather than make a phone call."

That appears borne out by the speed of adoption of internet banking. Wells Fargo's internet service, launched only two years ago, accounts for more than half of its 300,000-plus online banking customers. Jupiter expects the web, used by just 9 per cent of online banking households in 1996, to account for 80 per cent of the total market by 2000.

Banks benefit directly, as well as indirectly, from the convenience of internet access. A proprietary service, as well as developing software for different operating systems – for instance, Windows 3.1, Windows 95 and Macintosh – must also nag customers to install software updates each time the service is upgraded. By contrast, fixes and improvements to a website need only be executed once, at the central computer which hosts the service.

The impact is powerful. While the October overhaul of Quicken is an annual trauma for Intuit, Wells Fargo revamps its website every six weeks. When banks are still learning how to design a virtual branch, the opportunity to experiment and quickly jettison is a vital one. "It's about twice as fast to develop the interface on the internet as in any other medium," says Mr Nigg.

Barclays concedes the merit of many of these arguments. Indeed, it is hedging its bets by developing several other flavours of online banking, including one aimed at students to be offered over the internet. But it is still, at present, putting the bulk of its marketing campaign behind a proprietary service. Why?

There is one overriding reason, which Barclays concedes more openly than other banks. A user accustomed to a particular type of software is less likely to install an alternative service. "Obviously, we want to tie customers into us," says McManus of Barclays.

But that was the logic of computer makers such as Apple and online services such as Prodigy, which have lost customers to competitors which embraced more open standards such as the IBM PC and the internet. Barclays' proprietary service could suffer a similar fate if its advertised keys, rather than opening up online banking to customers, are perceived to lock them in.

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Eagle Eye · **Louise Kehoe**

Lands of the bland

If every country regulated content, we would end up with a web so anodyne it could not be deemed offensive anywhere

"Dog bites man" – no news. "Dog bites man on the internet" – big news! Child hears rude conversation on the bus – no news. Child watches raunchy film on TV – no news. Child sees a sexy web site on the internet – big news!

It was inevitable, perhaps, that internet hype should turn into internet fear; a backlash that has put the issue of free expression on the internet before the US Supreme Court.

Within the next two weeks the court will decide whether constraints can be placed on the content of websites, discussion groups and all other forms of publication on the global computer network to protect children.

As a parent, I am torn on this. We all want to protect children. I see no reason why regulations that apply to traditional media cannot also be applied to the web. Moreover, there are several filter programs that can be used to block access to offensive websites.

I am not ready, however, to constrain the expression of individuals who send e-mail or participate in internet discussion forums. These, it seems, are more akin to telephone conversations and none of us want "Big Brother" listening to what we say over the phone.

However, one of the most worrying aspect of this case is that it may impose American mores on the entire internet. This is a bad precedent. If every country with internet links were to attempt to regulate content, we could end up with the lowest common denominator – an internet so bland that it cannot be deemed offensive in any part of the world.

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Andy Grove, Intel chairman and chief executive, will stop at nothing in his efforts to prove that the Pentium-based personal computer is the trendiest and most technologically advanced electronic entertainment system for the home.

Last week, at a trade show in Atlanta, Georgia, Grove delivered his message in style – stepping out on stage in a gold lamé bunny suit, styled after the cover-all togs worn by production workers in Intel's ultra-clean chip production facilities. Joining the dance troupe that features in Intel's latest TV commercials, Grove swaggered John Travolta-style to the beat of Staying Alive, before pulling off the hood of his bunny suit to reveal his identity.

As a crowd-pleaser, Grove could not have done better. But his message to the consumer electronics manufacturers gathered in Atlanta was no joke. They could side with the PC, in Intel's battle for consumer eyeballs or find themselves overtaken by the next generation of microprocessor technology, he warned.

Pentium II PCs with graphics accelerators and digital video disc players will not only let consumers watch movies, but also make their own, he demonstrated. When it comes to video games, the PC is displacing special purpose machines in arcades as well as in living rooms, he claimed.

I am not ready to constrain the expression of individuals who send e-mail or participate in internet discussion forums

Delivering the hard-hitting speech had been a doddle, Grove said later that day when he returned to Intel's headquarters, but the dance routine had his stomach tied in knots.

Whether Intel can win the consumer marketing battle is another matter. Video game machines selling for about $200 do a remarkably good job of displaying fast-action interactive entertainment and the TV set – be it analogue or digital – is the screen than most people choose to focus their eyeballs on after a busy day. Intel – and perhaps Andy Grove – will have to jump through a lot of hoops before they can displace such entrenched consumer products.

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My e-mail is getting out of hand. A couple of months ago I expected to get about 30 e-mails a day. Now the average is 50 and rising.

It seems I'm lucky, however, compared to my neighbours at Oracle, the database software company. They receive an average of 100 e-mails a day. But Ray Lane, president, has worked out a system that enables him to take maximum advantage of e-mail, without letting it rule his work day – or his home life.

Lane checks his e-mail twice a day, morning and evening, but seldom in between. This enables him to respond in a timely fashion without interrupting other tasks.

Any internal e-mail that is more than a screenful long gets a terse reply telling the sender to condense his or her message.

E-mails that arrive when he is travelling are automatically acknowledged with a note that explains they have not been read. Correspondents can either discard their messages or resend them on his return. Most forget or do not bother. "I don't want to spend my entire first day back in the office responding to e-mail," Lane explains.

So could Lane live without e-mail? Hardly. For one thing, his boss Larry Ellison, Oracle chairman and chief executive, is an avid e-mail user.

The problem, however, is that the numbers of phone calls, faxes, voicemails and pieces of old-fashioned snail mail are not diminishing as e-mail increases. Eventually – I hope – as people place more confidence in e-mail, we will no longer get phone calls alerting us to e-mails, or faxes that duplicate e-mails. That, at least, would be a step in the right direction.

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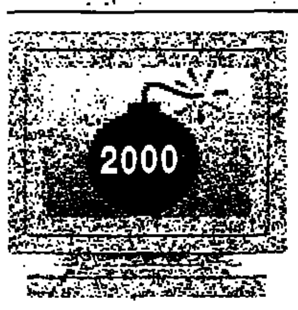
An Intel Inside joke: Q. What is shrinking faster than the transistors on a microprocessor? A: Office cubicles in the company's headquarters.

Workers in the Silicon Valley headquarters of the world's largest chipmaker are being forced to choose between desks and filing cabinets as their workspaces become miniscule.

Even Andy Grove will give up several square feet of his already meagre space in the latest effort to cram more people into the building.

Not good for morale, perhaps, but the profit-sharing bonuses that Intel has handed out in recent months go a long way toward making up for spartan office accommodations. I cannot help thinking, however, that Intel is taking the latest shrink a bit too far.

Share your views in the Eagle Eye discussion group on the FT website (www.FT.com), or contact Louise Kehoe by e-mail on louise@FT.com



Millennium Watch · **Paul Taylor**

A central question

The biggest US insurer sees the project as a test of its ability to do business in the future

Companies should view the change as an opportunity to improve existing processes or to introduce new ones, believes Irene Dec of Prudential Insurance.

As Year 2000 manager at America's biggest life insurer, she is responsible for ensuring that all its systems are ready for the millennium. Those systems include more than 800 applications, 100,000 programmes and an estimated 150m lines of code.

"This is truly a risk management project," she says. It is about your ability to do business in the future." But while she believes the issue is "the most difficult problem to face most IT organisations, and the largest project management issue we have ever faced," she also argues that companies should use it as a catalyst for change and an opportunity to improve operations.

Based on her experience at Prudential, she makes the following recommendations:

● Implement a Year 2000 organisational structure – preferably a centralised one. "If you choose to run the project in an ad hoc fashion, you are at high risk," she says. "I can tell you on a monthly basis exactly the number of lines of code we have in analysis, construction, testing and certification."

A centralised approach also means a company can take advantage of the experiences of different parts of the organisation.

● Business should also develop and maintain a strategic application portfolio and inventory.

Prudential 18 months ago put together a list of every application, which was stored in the database and tagged as critical to the company or non-core. "That was an early strategic decision," she says.

The database also lists where an application is going to be replaced instead of renovated, and if so, what the replacement date is. At Prudential, if an application is tagged for replacement in 1999, it is also being renovated "just in case the new application doesn't meet the business need".

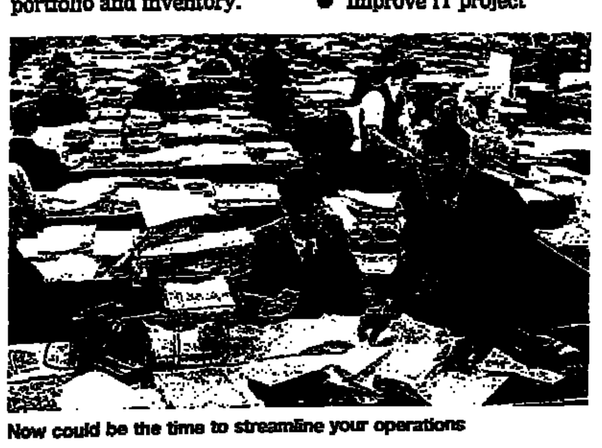
● Improve IT project management. "Project management has not really been one of IT management's fortes," says Dec. She adds: "75 per cent to 85 per cent of our projects are late – we are just not good at it."

To try to minimise the risk, the group has put its best IT people in charge of project management. "It is not a dumping ground," says Dec. "If yours is a dumping ground, do something about it."

Prudential has also adopted a standard methodology for project management. "The key is that there is a clear effort to be known to have developed our project management skills. There is no better time for this."

● Review and implement improved quality-assurance procedures and improve software library management functions.

About 50 per cent of the time involves testing. "Maybe this is a great time to introduce a centralised testing organisation," she says. "You will be gaining an advantage beyond the year 2000."



Now could be the time to streamline your operations

Emu speculation lifts Italian BTPs

GOVERNMENT BONDS

By Michael Lindemann in London and John Labate in New York

European bond markets headed upwards yesterday, with Italy surging once again on expectations of a "soft" euro, while US Treasuries recovered their poise following Monday's scare over Japanese bond sales.

ITALIAN BTPs were volatile. The September BTP future touched 134.22 before closing at 134.00, up 0.54 on the day, as some investors took profits.

Analysts said the strong performance was based on renewed speculation that Italy would become a founder member of European monetary union. The yield spread of BTPs over bunds remained steady at 122 basis points.

GERMAN BUNDS were also strong, outperforming US Treasuries by 8 basis points. Mr Heinz Gunasekera, at UBS, argued that the strong performance against the US was based on lingering fears about the Japanese sell-off of Treasuries, hinted at on Monday by Mr Ryutaro Hashimoto, Japan's prime minister.

Mr Gunasekera said he had seen strong bund trades, including longer maturities. The September bund future settled at 101.64, up 0.36.

Demand for UK GILTS was also stronger as investors moved back into the market following the fall earlier this week. The September gilt future put on 16/32 to settle at 113 26/32.

US TREASURIES had risen slightly by lunchtime after Monday's minor sell-off, sparked by the Japanese prime minister's comments.

The benchmark 30-year bond issue edged up ⅛ to 99 3/32, sending the yield down to 6.690 per cent.

Ten-year bonds rose 1/16 to 101 1/16, yielding 6.399 per cent, while two-year notes were 1/32 higher at 100 3/32, yielding 6.004 per cent.

The main factors driving the market in the morning were the release of stronger than expected consumer confidence indicators and the anticipation of new Treasury issuance in the afternoon.

The monthly consumer confidence indicator for June, released by the Conference Board in New York, rose to 129.6 from May's 127.9, above analysts' expectations.

"What is unusual is that confidence in the present situation is at a 28-year high and consumers still see growth ahead," said Ms Lynn Franco, economist at the Conference Board in New York.

The "jobs plentiful" component of the consumer confidence measure also rose, from 34.9 per cent in May to 35.9 per cent, suggesting that employees are having an easier time finding work.

"Confidence is up, but consumer buying plans are down," warned Mr Philip Braverman of DKB Securities. The long-anticipated rebound in spending has not materialised, adding a downside to confidence indicators, he said.

Bundesbank gives details of strippable 30-year bond

Initial details of the resumption of 30-year German government bonds were announced yesterday by the Bundesbank, writes Andrew Fisher in Frankfurt. The German central bank said the volume of the next bond, to be issued on July 4, would be about DM10bn. This will also be the first government bond on which investors will be allowed to engage in "stripping" – by which principal and interest are traded separately. Stripping will also be possible on the previous 30-year bund, issued in 1994 with a volume of DM20bn; the first tranche of the 10-year issue of 1997 totalling DM30bn; and the second tranche of the same bond, of which DM15bn has been issued.

Both the further issue of 30-year bonds – to widen the maturity spectrum at the "ultra-long" end – and the introduction of stripping are aimed at making the German capital market more competitive ahead of European monetary union.

Stripping is already practised in other markets, such as the UK and France. Two years ago, the German futures and options exchange, the Deutsche Terminbörse, scrapped its 30-year government bond contract (the Buxl future) because of lack of volume.

Banks wind down lending in Vietnam

By Jeremy Grant in Ho Chi Minh City

Bad debt problems at Vietnam's banks are unlikely to derail the country's settlement with its commercial, or London Club, creditors because they feel they are unlikely to achieve a better deal by renegotiating, bankers said yesterday.

But the damage to Hanoi's image abroad means that few see a debut eurobond issue of between $100m and $150m going ahead by the end of the year as planned.

Nor can the communist-run country's more healthy state-owned enterprises hope for much interest from foreign banks previously keen to assist with corporate bond issues abroad, they said.

"Vietnam has gotten a black eye and the banks are shortening their tenor," said one US banker. "For any unsecured, general purpose, medium-term [loan] in the name of any government borrower, it seems it's going to be difficult."

Vietnam is believed to be on the point of reaching final agreement with roughly 120 creditors on debts worth about $750m, owed since the 1970s and mostly to Japanese banks.

Hanoi has already agreed to a Brady-style settlement, involving the issue of bonds backed by US Treasuries, as well as other options.

Questions were raised about Vietnam's commitment to meeting international financial obligations last week after the country's biggest bank, Vietcombank, refused to pay foreign banks debts owed under a series of letters of credit.

It justified its decision by saying the government had said local banking laws took precedence over international conventions on letter of credit finance. That shook confidence in Vietnam's banking system, already rocked by a series of scandals involving unpaid letters of credit that are putting pressure on modest foreign exchange reserves of $1.7bn.

Bankers close to the London Club deal said Vietcombank's move was unlikely to seriously affect closure. However, bankers in Vietnam said they were winding down lending and the outlook for syndicated loans and bond issues by even the more promising state-owned enterprises were inadvisable.

"The banking system is in a shambles and we only know a little about what's really happening," said Mr Jean-Claude Guillemot, of Banque Francaise du Commerce Exterieure. "I don't think it's a good time to go to the market."

Two deals are in the market. A $90m syndicated loan is being arranged by Bank of America for Maritime Bank, one of Vietnam's more healthy, semi-private banks, and Citibank of the US is close to finalising a $30m loan to state coal exporter Vinacoal, split between onshore risk and some offshore syndication, with the advantage of being largely secured on coal exports.

However bankers said recent events could affect pricing. "Unless the government comes out and clarifies that they know what their responsibilities are, then no syndications are likely to get done," said the US banker.

EIB adds lira to its euro-fungible issues

GOVERNMENT BONDS

By Andrew Taylor

The European Investment Bank has re-emphasised its commitment to the growing market for bonds denominated in euros, the future European currency.

The bank issued a L1,000bn bond yesterday which, like previous issues this year by the EIB, can be redenominated into euros if the single European currency is introduced as planned in 1999.

It has raised more than $4.5bn to date from seven euro-fungible issues, in lire, guilders, sterling, D-Marks, French francs, Portuguese escudos and ecus. All but the sterling and ecu issues carry the same 5.75 per cent coupon after February 15 1999 and the same February 2007 maturity, so they can be consolidated into a single euro-denominated bond after monetary union.

The bank plans to issue more bonds on the same basis in other EU currencies to provide benchmarks for euro issues ahead of Emu. It says they will strengthen the liquidity of the euro as a world currency.

Yesterday's issue was led by Banca Nazionale de Lavoro, Credito Italiano and Banque Paribas. It attracted strong demand and the spread tightened in the secondary markets, according to traders. For Italian tax reasons the bond will have a 9 per cent coupon until February 15 1999, when it is due to step down to 5.75 per cent to allow consolidation with other EIB euro issues.

Dollar-denominated bond issues were conspicuous by their absence yesterday following a host of recent long-dated dollar deals.

CAPITAL ONE OFFERINGS, the US-based credit card company, raised SFr700m from a bond with an expected average maturity of five years.

The re-offer spread of 3 basis points above London interbank offered rate attracted good support for the triple A-rated bond, mainly from Swiss institutional investors, but with only a small amount of interest from other continental European institutions.

Morgan Stanley, which led the issue, said the Swiss market was chosen because of its excess liquidity.

The recent flow of German bank issues continued with three separate offerings.

The largest was from MUNCHENER HYPOTHEKENBANK, which raised DM1bn from a seven-year bond led by Bayerische Vereinsbank, Deutsche Morgan Grenfell, Deutsche Genossenschaftsbank, and Westdeutsche Genossenschafts Zentralbank. The re-offer spread of 3 basis points above the seven-year German bond attracted steady support.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
[illegible]							
Bank Nederlandse Gem	150	3.25	89.525R	Jul 2001	0.225R	+3.5(6¾%-00)	Nomura/UBS
[illegible]							
Munchener Hypo	1bn	5.00	98.22R	Jul 2004	0.110R	+3(6¾%May04)	Bayer/DMG/DG/WGZ
[illegible]							
Capital One Offerings(a,s)‡	700	(a1)	100.00R	Jun 2002	0.250R	-	Bank Morgan Stanley AG
[illegible]							
Merrill Lynch & Co(b)	1.5bn	6.125	99.41R	Jul 2009	0.400R	+38(i)	Merrill Lynch Intl
[illegible]							
EIB(c)	1tm	(c1)	98.336R	Feb 2007	0.325R	-	BZL/Credito It/Paribas
DSL	300bn	6.875	101.887	Jul 2007	2.00	-	BNP/San Paolo/IMI Lux
[illegible]							
Kingdom of Sweden	400	5.00(d)	101.764	Aug 2005	2.00	-	Kreditbank
[illegible]							
EIB(e)‡	20bn	(e)	100.00R	Jun 2000	0.150	-	ABN/Credito Int/Citibank
[illegible]							
Bayerische Vereinsbank	100	7.00	100.835	Jul 2002	1.875	-	Toronto Dom/Bayerische

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) Backed by Capital One Market Trust series 1997-1 class A certificates. a1) 3mth Libor +3bp. b) Redenomination into euros after EMU. c) Deal will be fungible with outstanding. EIB issues in escudos, French francs, DM and guilders. Deal redenominatable into euros after EMU. c1) 9.00 until Feb 1999, steps down to 5.75% from Feb 1999. d) For four years, then 7.25%. e) 3mth Athibor –85bp. i) Over interpolated yield. s) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.3305	–0.420	7.05	7.00	7.66
Austria		5.750	04/07	99.2400	+0.350	5.85	5.91	5.72
Belgium		6.250	03/07	103.0600	+0.030	5.83	5.81	5.80
Canada *		7.250	06/07	108.1900	–0.470	6.14	6.16	6.54
Denmark		7.000	08/07	104.0100	–0.440	6.45	6.36	6.25
France	BTAN	4.750	03/02	100.6642	+0.170	4.59	4.63	4.64
	OAT	5.500	04/07	99.2700	+0.450	5.60	5.60	5.58
[illegible]								

London closing, *New York mid-day. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Yields: Local market standard. Source: Standard & Poor's MMS.

US INTEREST RATES

[illegible]

BOND FUTURES AND OPTIONS

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
10150	0.67	0.93	0.71	1.00	0.53	0.79	1.50	1.79
10200	0.41	0.66	0.54	0.80	0.77	1.02	1.83	2.09
10250	0.24	0.46	0.40	0.63	1.10	1.32	2.19	2.42

Est. vol. total, Calls 9726 Puts 25263. Previous day's open int., Calls 115022 Puts 140665

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

Ecu

[illegible]

US

[illegible]

Japan

[illegible]

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Jun 24	Day's change %	Mon Jun 23	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	119.71	0.05	119.66	2.25	5.38
2 5-15 years (20)	151.81	0.24	151.46	2.29	5.93
3 Over 15 years (6)	179.12	0.43	178.35	5.66	5.02
4 Irredeemables (5)	206.77	0.41	205.93	2.16	7.10
5 All stocks (51)	146.38	0.21	146.07	2.91	5.68

UK Indices

	Low coupon yield Jun 24	Jun 23	Yr. ago	Medium coupon yield Jun 24	Jun 23	Yr. ago	High coupon yield Jun 24	Jun 23	Yr. ago
5 yrs	7.12	7.14	7.89	7.17	7.20	7.44	7.22	7.25	7.52
15 yrs	7.13	7.18	8.21	7.19	7.23	8.22	7.23	7.26	8.29
20 yrs	7.14	7.20	8.29	7.20	7.24	8.29	7.23	7.26	8.34
Irred.†	7.30	7.32	8.32						

Index-linked: Inflation 5% / Inflation 10% — [illegible]

FT Fixed Interest Indices

[illegible]

Gilt Edged Activity Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

CURRENCIES AND MONEY

Hashimoto rocks dollar only briefly

MARKETS REPORT

By Simon Kuper

The dollar fell against the yen yesterday, hit by apparent threats on Monday night from Mr Ryutaro Hashimoto, Japanese prime minister.

Speaking in New York, he seemed to hint that Japan could sell some of its holdings of US Treasury bonds. That sent the dollar initially as low as Y114.1 to the yen, Y1.4 below Monday's close.

The dollar rebounded later after various Japanese officials said Mr Hashimoto had been misunderstood. The currency was also helped slightly by a recovery on Wall Street and by a new 28-year high in US consumer confidence for June. But the dollar still ended below Monday's close, at Y114.9 to the yen.

Mr Hashimoto said that at various times in the past, during trade disputes or when the US had seemed unconcerned about dollar moves, Japan had been "tempted to sell large lots of US Treasuries".

He concluded: "I hope the US will engage in efforts and in cooperation to maintain exchange rate stability, so we will not succumb to the temptation to sell off Treasury bills and switch our funds to gold."

This last, crucial remark hit US stocks hard, but it baffled forex strategists. Mr Hashimoto seemed to be hinting that there was a currency dispute between the US and Japan, and to be suggesting that the dollar was weak. But the US and Japan are thought to agree on the best level for the dollar/yen rate now. Also, most recently it was Tokyo not Washington that called for a weaker dollar. Mr Mark Geddes, treasury economist at ABN-Amro in London, said: "I'd say his comments were really weird."

The dollar firmed against the D-Mark to DM1.724, making up some of Monday's losses. Currency strategists said several European central banks had been selling dollars for D-Marks since the Group of Seven's Denver summit this weekend – perhaps in order to stop the dollar rising too quickly, given recent fears that the future euro would be a weak currency.

Mr Yves-Thibault de Silguy, European monetary affairs commissioner, yesterday stoked such fears of a fiscally lax monetary union. He said there was no question of the budget deficit qualifying criterion for Emu being "brutally" applied, and added: "There is a small margin of manoeuvre." That seemed to raise Italy's chances of qualifying, and the lira rose another L1 against the D-Mark to L977.2.

■ So what did Mr Hashimoto mean? Most strategists thought he was simply retaliating against recent US complaints about Japan's growing trade surplus. This particular threat was empty, they agreed. Mr Adrian Schmidt, senior economist at Chase, said: "The reaction is to say, 'Well, the argument between the US and Japan is probably more serious than people thought.'"

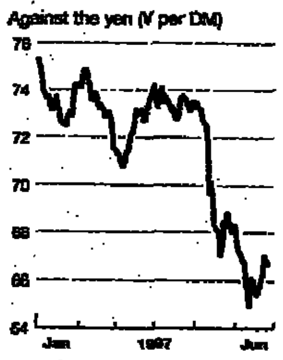
■ Sterling rose early in the day to a new 59-month peak above DM2.88 to the D-Mark, on prospects of further UK base rate rises. But the pound retreated later on profit taking to close at DM2.872, 0.5 pfennigs up on the day, after a report by Goldman Sachs said it was nearly 15 per cent overvalued. The report recommended staying "square sterling, with a view to selling rather than buying".

The Goldman comments in themselves were nothing new. Mr Carl Weinberg, chief economist at High Frequency Economics in New York, pointed out: "Everybody's been saying since January that sterling's overvalued." However, the market also agrees with Mr Avinash Persaud, currency strategist at J.P. Morgan in London, who said yesterday: "This overvaluation is very well supported by the interest rate outlook and the UK's option to join European monetary union or not."

The Goldman report attracted notice partly because many in the market feel uncomfortable at the pound's new zenith, and partly because they thought Mr Gavyn Davies, Goldman Sachs chief international economist, was behind the report – even though his name is not on it. Mr Davies is a Labour supporter, and many in the market suspect that he often knows what Mr Gordon Brown, the UK chancellor is planning.

D-Mark

Against the yen (Y per DM)



Source: Datastream

■ Pound in New York

Jun 24	—Latest—	— Prev. close —
£ spot	1.6645	1.6715
1 mth	1.6631	1.6702
3 mth	1.6602	1.6673
1 yr	1.6465	1.6534

■ OTHER CURRENCIES

Jun 24	£	$
Czech Rp	52.9379 - 53.0732	31.7830 - 31.8490
Hungary	308.719 - 308.951	185.350 - 185.400
Iran	4999.20 - 4996.80	3000.00 - 3000.00
Kuwait	0.5032 - 0.5043	0.3021 - 0.3026
Poland	5.3882 - 5.3958	3.2350 - 3.2390
Russia	9599.85 - 9606.80	5763.00 - 5765.00
U.A.E.	6.1171 - 6.1207	3.6726 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Jun 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.2108	+0.039	012 - 204	20.2807	20.1611	20.1564	3.2	20.0437	3.3	19.5382	3.3	102.7
Belgium	(BFr)	59.2530	+0.1021	371 - 688	59.4760	59.1160	59.0859	3.4	58.7426	3.4	57.2013	3.5	102.4
Denmark	(DKr)	10.9388	+0.0218	345 - 431	10.9769	10.3096	10.9115	3.0	10.8541	3.1	10.6046	3.1	105.0
Finland	(FM)	8.6052	+0.0378	968 - 136	8.6470	8.5570	8.5799	3.5	8.5274	3.6	8.3147	3.4	82.1
France	(FFr)	9.6971	+0.0257	938 - 004	9.7282	9.6536	9.671	3.2	9.6164	3.3	9.3718	3.4	104.9

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.1314	+0.0111	285 - 342	12.1400	12.0745	12.1074	2.4	12.0564	2.4	11.8344	2.4	102.4
Belgium	(BFr)	35.5660	+0.025	650 - 670	35.5900	35.4130	35.491	2.5	35.3395	2.5	34.646	2.6	102.4
Denmark	(DKr)	6.5658	+0.0064	649 - 669	6.5706	6.5353	6.5542	2.1	6.5299	2.2	6.4235	2.2	104.3
Finland	(FM)	5.1652	+0.0174	614 - 689	5.1839	5.1261	5.1538	2.7	5.13	2.7	5.0362	2.5	81.7
France	(FFr)	5.8206	+0.0095	200 - 212	5.8271	5.7875	5.8091	2.4	5.7852	2.4	5.6764	2.5	104.5

† Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 23. Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9350	0.18	0.56	0.82	0.18	0.15	0.16
9375	0.07	0.37	0.63	0.32	0.21	0.22
9400	0.02	0.23	0.47	0.52	0.32	0.31

Est. vol. total, Calls 4166 Puts 437. Previous day's open int., Calls 63783 Puts 36003

Warning on aluminium smelting capacity

By Kenneth Gooding, Mining Correspondent

A severe shortage of aluminium smelting capacity is likely to be felt from 1999 onwards, Mr Alan Heap, commodity analyst at County NatWest Securities, warned yesterday. However, he said, at the bottom of the next economic cycle, prices would fall below previous all-time lows.

Mr Heap told delegates at the annual aluminium conference organised by the Financial Times and the CRU International consultancy that, even with a modest 3.2 per cent annual growth in aluminium demand – and allowing for continuing high levels of exports to the west from the former Soviet Union – there would be a shortage of nearly 900,000 tonnes of smelting capacity before the end of the decade.

"Even assuming additional supply from sources not yet committed but which could conceivably be brought on stream by the end of the decade, the deficit is more than 500,000 tonnes a year," Mr Heap said.

He suggested the deficits would drive stocks to very low levels and prices would soar. "This outlook implies an increase in substitution pressures towards the end of the decade and threats to the more widespread use of aluminium in the automobile industry."

Mr Heap said the aluminium industry had made various adjustments that gave it stable margins of profit coupled with steadily falling costs. He pointed out that in previous economic cycles prices had fallen below the average cash cost of production before closures and other rationalisation had been put into effect.

"Stable margins will contribute to delays in closing capacity," he said. "This, combined with further falls in costs, points to prices falling below the historical minimum at the bottom of the next cycle."

Delegates were told that there would be no medium-term shortages of two of the aluminium industry's key raw materials: alumina and calcined coke.

Mr Dennis Morrison, senior director, economics and projects, at the Jamaica Bauxite Institute, suggested there would be an adequate supply of alumina even if no new production capacity was built. However, prices were likely to rise slightly.

"An alumina price range of $190 to $230 [a tonne] would provide for the requisite expansion and profitability of operations without putting pressure on [aluminium] smelter costs," he added.

Mr C. Van Sheets, president of CII Carbon LLC, insisted that, in spite of some warnings about potential shortages, there would be enough coke calcining capacity to meet the increasing demand of aluminium producers.

Liberalisation of electricity markets would mean more price uncertainty for the aluminium industry, said Mr Leif Hegna, vice-president, Elkem ASA Energy. "Liberalisation will tend to lower electricity prices for large users – including the large users in the aluminium industry. I believe that for our industry the benefit of generally lower electricity prices will outweigh any disadvantage caused by increased price volatility and new risks."

Gencor seeks Maputo partners

By Kenneth Gooding

Gencor, the South African mining group, and South Africa's Industrial Development Corporation yesterday gave a conditional go-ahead for a US$1.125bn aluminium smelter in Maputo, Mozambique.

The project depends on Gencor and the IDC, who will have 25 per cent each, finding suitable equity partners this year.

Mr Mick Davies, Gencor's finance director, said there had been "early talks" with potential partners who might be aluminium consumers or trading houses, not necessarily aluminium producers.

Gencor and the IDC are each investing $125m and the International Finance Corporation, a World Bank offshoot, is to provide funding linked to fluctuations in aluminium's price and the smelter's income.

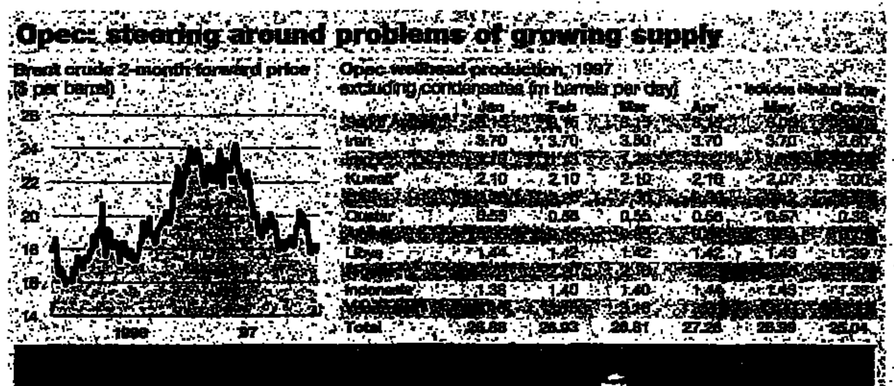
The Mozambique government has granted the project "industry free-zone status" which gives tax and other benefits.

Mr Davies said the smelter, called Mozal, was possible because of a long-term power price offered by Eskom, the South African electricity group. Eskom would build two power lines from South Africa to Maputo.

Mozal will produce 240,000 tonnes of aluminium a year, only half the size of the Hillside smelter built by Gencor's Alusaf subsidiary and which started up two years ago. Construction is expected to begin in November and Mozal would start production in mid-2000.

Gencor hopes to float its base metals business on the London Stock Exchange, using the Billiton name, and Alusaf and the Mozal project would be among Billiton's assets if listing proceeded.

Opec set to stick with its quotas



Visitors to Vienna can always tell when Opec is in town by the anti-terrorist police on guard outside the hotels in the city that is home to the group's secretariat.

But oil ministers from the 11 members of the Organisation of Petroleum Exporting Countries gathering for the meeting starting today probably face a greater threat. One careless comment can cause oil prices to fall.

As ministers were whisked to their hotels in the smoked-glass black Mercedes that are standard at Opec meetings, it was easy to believe that all was well with the world's oil markets.

Continuing economic growth in Europe, the US and Asia has underpinned oil prices over the past year without igniting inflation in the industrialised world. Even chronic cheating on quotas by Venezuela, Nigeria and several other Opec producers has been offset by growth in demand.

Noises from the UN in New York this week about tighter environmental controls on fossil fuels will annoy them, but the next clash over greenhouse gases remains in the future.

Oil prices have fallen steadily this year, from a peak of about $25 a barrel for the bellwether Brent blend in January to a low of just under $17 earlier this month, but there appears to be little alarm among Opec members.

Although current prices are below the $20-$25 range that Saudi Arabia, the world's biggest exporter, had hoped would become the new trading band for crude, Opec appears content with market trends. Until last week the Opec basket of seven crude oils had averaged $19.32 this year, well above the price assumptions of the big Gulf producers, whose main concern remains revenue rather than export volumes.

"On a seasonal basis, I don't see prices so low or so high that Opec has to act," says Mr Vahan Zanoyan, of the Petroleum Finance Company in Washington.

Some warn against complacency. The one big uncertainty is whether world-wide demand is sufficient to soak up growing supplies.

Pessimists point to rising inventories as a sign that supply is outstripping demand. Mr Jeremy Hudson, of the London office of US brokers Solomon Brothers, says inventories that dipped to six-year lows last year have recovered to five-year highs. The result could be a prolonged period of prices at $16-$18, with 1998 "looking more and more ugly".

Others are less sure. "If you told me there was a surplus, I would not be surprised," said Mr Robert Mabro, at the Oxford Institute for Energy Studies. But nor would he be surprised if widely-predicted oversupply did not materialise.

Although Mr Mabro admits there will be periods of strong supply growth, he believes "on average the longer term market is likely to be on the tight side".

For Opec ministers, the subjects for debate appear numerous, but the options for action are limited. Although they could agree to curtail excess output, they have no means of enforcing it on members, while changing the quota system would, in the words of Mr Mabro, be "madness".

However, the signs were yesterday that Opec would approve a six-month rollover of the group's present production ceiling because of concerns over prices and uncertainty about Iraq's plans to resume exports under the UN oil-for-food programme. A decision to roll over the ceiling is expected to be accompanied, however, by new efforts to ensure that the group improves its ability to stay close to national quotas.

One Gulf delegate last night suggested the present indiscipline within the group "could not last forever", although ministers are not expected to agree any specific steps at today's meeting. However, Saudi Arabia is keen to focus attention on the quota issue.

Robert Corzine

Speculators boost cocoa

MARKETS REPORT

By Gary Mead

Enthusiasm for cocoa continued to dominate trading on the London International Financial Futures Exchange yesterday.

This was despite reports from Ivory Coast, the world's biggest producer, that heavy rainfall in June had returned soil moisture to normal and that the crop was forecast to be as good as last year's record 1.2m tonnes.

The country's main crop – harvested between October and April – is now expected by some analysts to be around 1.1m tonnes, considerably higher than initially feared.

On Liffe, the September future closed at a one-year peak of £1,141 a tonne, up £11, having touched £1,160 during the day. Traders attributed this to speculative buying, itself fuelled by fears over developing weather conditions.

Oil prices slipped on London's International Petroleum Exchange, following reports that Iraq expects to start exports from its second six-month tranche within 10 days; it sold oil worth $2bn in the first six months of this year, under a deal with UN to obtain food in exchange. The price for Brent for August delivery was 18 cents lower, at $17.85 a barrel in late trading.

On the London Metal Exchange copper was hit by the impending summer slowdown in the northern hemisphere and news that output at Chile's El Teniente mine and production at Inco's strike-bound Sudbury facility in Canada may resume imminently. Three-month copper fell $74 to close at $2,437 a tonne.

Profit-taking hit zinc, which closed $11.50 a tonne lower at $1,397.

The London-quoted Pulpex future was largely unmoved yesterday by news that Sodra, the large Swedish producer of pulp, was raising its softwood pulp price by $30 to $610 a tonne. This follows a price rise of $50 a tonne to $630 by the large US pulp producer Weyerhaeuser from July 1. Pulpex's front month of September closed up $13.75 at $555 a tonne.

One specialist said that whereas US pulp buyers might accept a price rise, European buyers would not. "This is in any case a list price and what price is finally negotiated is usually very different, with discounts of between 6 per cent and 7 per cent being normal," he added.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1561.5-62.5	1585-86
Previous	1562.5-3.5	1586.5-7.5
High/low		1590/1576
AM Official	1559-60	1583-4
Kerb close		1578-79
Open int.	255,634	
Total daily turnover	70,179	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1435-40	1465-68
Previous	1440-45	1463-5
High/low	1450/1436	1470/1465
AM Official	1436-7	1462-5
Kerb close		1463-68
Open int.	5,010	
Total daily turnover	977	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	605.5-6	620-1
Previous	608-9	621-2
High/low		621/618
AM Official	605.5-6.0	616.5-6.0
Kerb close		618-9
Open int.	34,152	
Total daily turnover	6,886	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7055-65	7170-80
Previous	7100-10	7215-20
High/low		7230/7165
AM Official	7065-70	7180-81
Kerb close		7170-80
Open int.	51,940	
Total daily turnover	16,675	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5550-55	5610-15
Previous	5550-60	5600-10
High/low		5635/5580
AM Official	5550-55	5600-05
Kerb close		5575-85
Open int.	14,364	
Total daily turnover	3,666	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1386-87	1403-04
Previous	1388-9	1407-8
High/low	1382.5	1410/1397
AM Official	1382-2.5	1398.5-9.5
Kerb close		1397-98
Open int.	94,402	
Total daily turnover	31,424	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2628.5-27.5	2496-97
Previous	2643-5	2504-6
High/low		2513/2428
AM Official	2640-5	2502-3
Kerb close		2435-37
Open int.	149,334	
Total daily turnover	58,335	

■ LME AM Official £/$ rate: 1.6667
LME Closing £/$ rate: 1.6658
Spot: 1.6644 3 mths: [illegible] 6 mths: [illegible] 9 mths: [illegible]

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	112.70	-5.90	118.50	112.50	635	975
Jul	112.15	-6.05	118.60	111.60	7,290	29,166
Aug	111.15	-5.75	116.50	110.50	90	2,982
Sep	110.75	-5.45	116.40	110.30	5,315	18,667
Oct	108.95	-5.05	112.70	109.20	31	1,299
Nov	107.75	-4.85	-	-	5	1,227
Total					14,013	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	338.30-338.80		
Opening	338.50-338.80		
Morning fix	338.65	202.68	486.30
Afternoon fix	338.35	202.97	486.55
Day's High	338.80-340.10		
Day's Low	338.10-338.40		
Previous close	338.05-338.55		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.49	6 months	4.42
2 months	4.48	12 months	4.34
3 months	4.48		

Silver Fix	p/troy oz.	US cts equiv.
Spot	287.50	480.00
3 months	291.85	485.65
6 months	296.10	491.65
1 year	304.80	503.35

Gold Coins	$ price	£ equiv.
Krugerrand	339-341	203-205
Maple Leaf	-	-
New Sovereign	79-82	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	337.5	-1.5	338.7	336.0	20	309
Aug	338.5	-1.8	341.2	338.4	26,044	94,784
Oct	342.0	-1.8	344.8	342.4	89	8,026
Dec	344.5	-1.8	347.5	344.4	710	27,592
Feb	347.1	-1.8	348.2	347.8	327	8,931
Apr	349.4	-1.7	-	-	255	4,478
Total					27,637	184,822

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	409.4	-5.8	412.5	409.0	1,258	7,406
Oct	402.4	-5.8	403.0	398.0	554	7,947
Jan	394.9	+1.7	393.5	392.0	106	1,671
Apr	394.8	+1.7	-	-	4	131
Total					1,922	17,155

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	200.90	-2.65	205.00	196.00	108	87
Sep	178.90	+2.35	179.50	175.00	425	5,705
Dec	172.55	+6.00	172.00	171.60	2	642
Mar	172.55	+5.00	-	-	-	95
Total					535	6,529

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	474.5	-6.1	-	-	38	15
Jul	475.0	-6.2	483.0	473.0	25,162	35,952
Sep	479.3	-6.1	487.0	478.0	8,766	30,016
Dec	485.6	-6.1	493.0	485.0	1,040	8,875
Jan	486.7	-6.1	-	-	-	17
Mar	492.6	-6.2	496.5	494.0	[illegible]	9,205
Total					37,797	94,137

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.94	-0.20	19.45	18.92	30,926	101k
Sep	19.07	-0.18	19.50	18.95	10,880	41,254
Oct	19.17	-0.19	19.54	19.17	4,659	28,452
Nov	19.25	-0.21	19.61	19.25	1,119	18,996
Dec	19.46	-0.09	19.67	19.44	3,191	40,704
Jan	19.50	-0.18	19.70	19.50	1,891	18,798
Total					58,911	386,118

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	17.73	-0.25	18.14	17.73	13,212	77,332
Sep	17.92	-0.16	18.29	17.92	5,430	34,659
Oct	18.16	-0.04	18.38	18.15	701	15,165
Nov	18.30	-0.04	18.53	18.30	494	10,301
Dec	18.39	-0.04	18.61	18.37	1,848	15,332
Jan	18.37	-0.07	18.59	18.37	1,121	7,987
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.85	-0.37	52.50	51.55	11,005	21,145
Aug	51.85	-0.33	52.75	51.85	8,485	35,969
Sep	52.70	-0.23	53.40	52.70	1,790	16,567
Oct	53.80	-0.13	54.30	53.65	2,186	16,068
Nov	54.70	-0.18	55.23	54.80	1,340	12,591
Dec	55.60	-0.13	56.10	55.50	1,482	16,124
Total					27,623	152,421

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	160.25	-	162.00	160.00	4,400	19,497
Aug	162.25	+0.25	163.75	162.00	2,185	15,254
Sep	164.50	+0.25	165.75	164.50	329	6,569
Oct	167.25	+0.25	168.25	167.50	223	6,814
Nov	169.25	+0.25	170.00	169.00	253	4,071
Dec	170.75	+0.25	171.75	170.00	663	8,267
Total					10,243	76,771

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.260	+0.014	2.280	2.235	22,856	23,285
Aug	2.245	+0.003	2.290	2.235	6,335	32,502
Sep	2.246	+0.009	2.270	2.230	2,182	19,098
Oct	2.262	-	2.270	2.240	1,574	21,034
Nov	2.330	-0.007	2.380	2.310	605	9,780
Dec	2.485	-0.005	2.510	2.485	572	13,509
Total					36,433	202,926

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	55.25	-0.38	56.20	55.20	13,752	20,236
Aug	55.05	-0.23	56.00	55.00	10,456	30,828
Sep	54.95	-0.03	55.75	54.65	2,479	9,451
Oct	54.30	+0.07	54.60	54.30	766	5,777
Nov	54.10	+0.22	54.25	54.10	50	2,188
Dec	54.00	+0.12	54.30	54.00	546	5,113
Total					28,288	80,488

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	78.50	+1.00	78.50	78.00	76	590
Sep	83.30	+0.05	-	-	-	176
Nov	86.30	+0.05	86.30	85.90	142	3,868
Jan	88.30	+0.05	88.30	87.90	37	1,768
Mar	90.40	+0.15	90.40	90.00	55	933
May	92.40	+0.15	92.00	91.95	11	556
Total					321	7,890

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	332.50	+2.75	335.50	328.50	9,016	25,874
Sep	339.00	+2.00	343.00	336.50	6,348	27,894
Dec	352.00	+1.50	355.00	349.00	7,169	25,175
Mar	357.50	+1.75	360.50	355.00	1,190	3,377
May	355.00	+2.00	357.00	353.00	91	285
Jul	351.00	+3.25	351.50	348.00	432	1,767
Total					24,236	84,292

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	260.25	-0.25	261.25	258.50	33,980	80,988
Sep	247.00	+2.00	247.50	244.75	14,645	48,442
Dec	245.75	+2.50	246.25	242.50	30,513	134,592
Mar	252.25	+2.00	253.00	250.00	2,587	19,140
May	257.25	+2.00	257.75	255.75	845	2,139
Jul	260.75	+2.25	261.00	258.00	1,465	4,483
Total					84,597	273,885

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	80.60	+0.80	-	-	-	34
Nov	83.80	+0.80	83.50	83.35	12	1,172
Jan	85.60	+0.60	-	-	-	164
Mar	87.60	+0.60	87.00	87.00	1	14
May	89.10	+0.60	-	-	-	4
Total					13	1,388

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	831.00	-5.00	840.00	828.00	24,776	37,918
Aug	767.50	-0.50	774.00	765.25	12,229	28,742
Sep	691.25	+6.25	697.00	683.00	1,609	10,981
Nov	660.75	+8.00	665.50	653.00	15,468	58,503
Jan	662.00	+8.50	666.50	656.00	1,699	9,046
Mar	665.50	+7.50	669.00	659.00	665	2,325
Total					57,584	150,706

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	22.73	-0.02	22.85	22.71	8,946	28,508
Aug	22.90	-0.01	23.03	22.88	4,704	19,708
Sep	23.03	-0.05	23.20	23.00	634	10,047
Oct	23.04	-0.05	23.22	23.00	532	12,102
Dec	23.19	-0.07	23.39	23.13	5,107	28,032
Jan	23.33	-0.02	23.55	23.29	202	2,270
Total					20,718	103,468

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	272.9	-0.8	275.9	271.6	10,375	25,731
Aug	251.1	+0.9	252.8	250.0	7,185	21,456
Sep	231.5	+1.8	232.0	229.7	1,374	13,511
Oct	220.8	+2.8	221.0	218.0	875	13,532
Dec	215.8	+3.9	216.5	211.5	4,515	27,939
Jan	213.0	+3.5	213.0	211.0	181	2,985
Total					24,451	110,372

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	-	-	-	-	9
Mar	63.0	+3.0	-	-	-	-
Apr	68.0	+4.0	68.0	66.0	44	736
May	80.0	+1.0	67.0	57.0	2	-
Jun	90.0	+1.0	-	-	-	-
Total					44	745

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1275	+5	-	-	-	411
Jul	1205	+45	1205	1200	19	1,253
Aug	1190	+40	1185	1155	30	527
Oct	1381	+15	1381	1381	5	665
Jan	1385	+20	1385	1385	10	77
Total					64	3,133

	Close	Prev
BFI	1281	1280

FUTURES DATA
All futures data supplied by CMS.

Minor metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 2,000-2,140 (2,080-2,160). Bismuth: min. 99.99%, tonne lots 3.80-3.95. Cadmium: min. 99.95%, cents a pound, 50.00-60.00. Cobalt: MB free market, min. 99.8%, 22.00-23.00 (22.75-23.75); min. 99.3%, 18.75-19.50 (19.35-20.35). Mercury: min. 99.99%, $ per 76 lb flask, 153-163 (155-165). Molybdenum: drummed molybdic oxide, 4.50-4.60 (4.50-4.65). Selenium: min 99.5%, 1.90-2.60 (1.90-2.40). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. Vanadium: min. 98%, CIF. 3.80-3.85 (3.75-3.90). Uranium: Nuexco unrestricted exchange value, 10.25 (10.40).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1131	+16	1145	1125	1,049	17,865
Sep	1146	+16	1162	1139	4,735	31,142
Dec	1147	+17	1166	1144	5,784	33,363
Mar	1159	+19	1175	1156	2,321	43,278
May	1170	+19	1190	1168	1,499	17,453
Jul	1180	+19	1199	1178	604	6,583
Total					17,099	171,832

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1680	+17	1700	1647	312	278
Sep	1712	+16	1737	1685	9,382	40,833
Dec	1755	+20	1775	1730	3,020	20,496
Mar	1785	+25	1802	1768	1,305	22,502
May	1803	+24	1817	1777	332	9,086
Jul	1816	+17	1835	1791	78	682
Total					16,061	102,280

■ COCOA (ICCO) (SDR's/tonne)

Jun 23	Price	Prev. day
Daily	1269.72	1255.63

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1795	-28	1815	1771	696	7,511
Sep	1815	-30	1840	1790	1,749	24,325
Nov	1795	-35	1827	1780	696	10,361
Jan	1758	-42	1790	1750	274	3,353
Mar	1733	-42	-	-	-	552
May	1733	-42	-	-	-	53
Total					3,365	46,155

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	198.00	+3.35	198.00	193.00	488	1,183
Sep	175.10	-0.35	179.00	171.75	6,415	10,917
Dec	154.35	+0.20	157.00	151.00	1,089	4,800
Mar	143.50	-1.25	146.00	140.00	442	2,449
May	139.50	-1.15	141.00	136.00	162	774
Jul	138.50	-1.65	140.00	135.50	57	219
Total					8,699	20,573

■ COFFEE (ICO) (US cents/pound)

Jun 23		Prev. day
Comp. daily	144.75	147.33
15 day average	158.00	160.54

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	316.7	-2.4	319.0	316.2	2,810	13,757
Oct	314.2	-0.3	314.6	313.3	1,365	7,711
Dec	311.5	-0.7	311.7	311.0	487	3,446
Mar	312.3	+0.1	312.9	311.5	398	3,515
May	311.7	+0.6	-	-	-	956
Aug	309.7	-1.1	309.5	309.5	1	904
Total					5,141	30,978

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.06	-0.05	11.15	11.05	16,020	30,958
Oct	11.15	+0.04	11.20	11.07	12,292	85,415
Mar	11.12	+0.05	11.17	11.05	3,645	38,570
May	11.04	+0.06	11.09	10.97	649	7,967
Jul	10.98	+0.10	10.95	10.88	222	3,657
Oct	10.86	+0.08	10.81	10.80	23	1,030
Total					32,815	168,309

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.39	+1.30	73.60	72.20	10,116	3,323
Oct	76.26	+1.36	76.35	74.95	3,057	12,171
Dec	76.93	+1.65	77.00	75.40	10,924	37,443
Mar	77.99	+1.46	77.99	76.65	850	5,926
May	78.48	+1.28	78.48	77.40	256	1,311
Jul	78.50	+1.00	78.50	78.50	356	892
Total					26,047	64,165

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	74.30	+1.65	75.40	72.50	4,003	12,416
Sep	77.20	+1.70	78.00	75.50	4,446	14,848
Nov	79.90	+1.50	80.95	78.60	1,070	5,455
Jan	82.50	+2.40	83.70	81.50	321	2,184
Mar	85.25	+2.25	86.00	84.50	85	1,510
May	88.00	+2.10	88.00	88.00	3	337
Total					9,930	36,791

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 24	Jun 23	month ago	year ago
1992.0	1995.3	1990.7	2010.6

■ CRB Futures (Base: 1967 = 100)

Jun 23	Jun 21	month ago	year ago
241.25	240.52		

■ GSCI Spot (Base: 1970 = 100)

Jun 23	Jun 21	month ago	year ago
184.19	183.63	200.75	200.87

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,900	to	683,275
Aluminium alloy	-100	to	39,780
Copper	+475	to	122,250
Lead	+300	to	115,950
Nickel	+66	to	52,572
Zinc	-275	to	423,750
Tin	-100	to	11,595

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	63.375	-0.575	63.900	63.200	6,180	42,444
Oct	66.775	-0.325	67.250	66.575	2,426	23,874
Dec	69.400	-0.375	69.950	69.300	1,127	13,440
Feb	70.625	-0.150	70.975	70.450	1,024	6,376
Apr	72.725	-0.100	73.025	72.600	352	2,792
Jun	68.925	-0.075	69.250	68.850	271	1,054
Total					12,082	90,802

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	82.800	+0.150	83.000	82.050	3,253	8,750
Aug	79.450	+0.025	79.850	79.000	2,735	11,879
Oct	71.275	-0.175	71.800	70.950	877	7,130
Dec	67.825	-0.450	68.400	67.600	475	4,506
Feb	66.575	-0.400	67.250	66.500	157	1,363
Apr	63.250	-0.100	63.900	63.250	30	1,002
Total					7,574	38,838

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	80.550	-0.125	81.050	79.525	1,068	3,375
Aug	80.700	+0.200	81.100	79.525	677	2,985
Feb	71.575	-0.225	72.000	71.200	64	491
Mar	70.525	-	-	-	2	17
Jul	72.200	-0.300	72.200	71.900	1	1
Total					1,809	6,876

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1550	16	64	13	40
1575	8	51	28	51
1600	5	40	48	65

■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2450	93	62	8	130
2500	56	46	21	162
2550	29	34	44	198

■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1750	313	206	278	141
1800	292	186	307	171
1850	272	170	337	205

■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	6	80	8	34
1125	1	67	28	46
1150	-	55	52	59

■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1750	-	-	40	40
1800	54	87	-	-
1850	37	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.86-6.93	+0.11
Brent Blend (dated)	$17.59-7.61	+0.055
Brent Blend (Aug)	$17.81-7.83	+0.075
W.T.I.	$19.05-9.07w	+0.12

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$193-195	-3
Gas Oil	$159-161	-0.5
Heavy Fuel Oil	$80-82	
Naphtha	$173-177	-4
Jet fuel	$176-178	
Diesel	$165-167	

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	9.30-9.40	+0.225
IPE (Jul)	9.350	+0.100

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

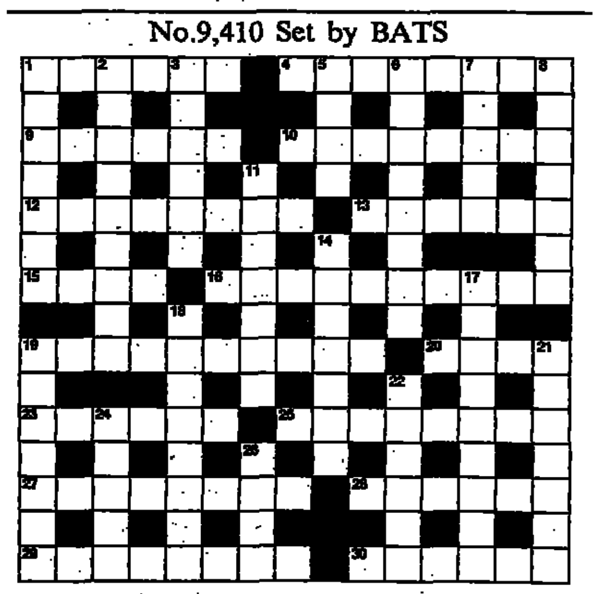
Gold (per troy oz)♣	$338.55	+0.25
Silver (per troy oz)♣	479.00c	-1.00
Platinum (per troy oz.)	$414.00	-7.00
Palladium (per troy oz.)	$194.50	-5.50
Copper	124.0c	-4.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.91r	+0.12
Tin (New York)	261.5	+1.0
Cattle (live weight)	93.98p	+1.65*
Sheep (live weight)	118.16p	+1.08*
Pigs (live weight)†	93.32p	-5.86*
Lon. day sugar (raw)	$273.90	+2.20
Lon. day sugar (wte)	$324.50	-1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	67.00p	-4.00
Rubber (Aug)♥	67.00p	-4.00
Rubber (KL RSS No1)	274.5r	-1.5
Coconut Oil (Phil)§	662.5y	+7.5
Palm Oil (Malay.)§	532.5w	+2.5
Copra (Phil)§	$415.0y	
Soyabeans (US)	207.0	-2.0
Cotton Outlook'A' Index	80.40c	-0.65
Wooltops (64s Super)	446p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Aug. w Jul. London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,741 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,410 Set by BATS



ACROSS
1 The team's legs (6)
4 As partners, wanting to acquire her (8)
9 Vote is rigged for Union no more (6)
10 Entrance chamber of North African volcano receding (8)
12 Facility is seen as being difficult (8)
13 Creator of golden deity (6)
15 Annoy the informer (4)
16 Moving train (10)
19 Unhappily, one is apart – divorce may follow (10)
20 The boss is a virile man (4)
23 Lessen the weight of the case for keeping peacekeepers on deck (6)
25 Pudding is a lemon crumble (8)
27 One in pub alongside hotel in the South of France (8)
28 Military band (6)
29 Intestinal layer, broken or mended (8)
30 Alien must follow map to find celestial body (6)

DOWN
1 Oriental festival needs a point (7)
2 What happens in autumn when topless? Listen in! (9)
3 Everyone departs, next EU collapses (6)
5 Beastly sound comes from duck – it needs a pen (4)
6 River divided or estate divided by one (8)
7 Alcoholic drink found in Sutton church (5)
8 Compunction associated with inspector (7)
11 They accompany loose corsets (7)
14 Military man is a bit of a nut, we hear (7)
17 Instinctive knowledge in teaching (9)
18 Got better under the expert (8)
19 Fall after second trip (7)
21 Face etc altered with contortion of tongue (7)
22 Left a pound under the door (6)
24 Welsh party for the Scottish cloth (5)
26 Prison disturbance (4)

Solution 9,409

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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منتخب ال‍وصول

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£25		*£28¼	£20¼	1,915	2.9	♦
Barlow	‡†	£9	+¼	£7⅞	£5¼	1,333	2.2	13.6
Gold Flds Prop R	†	106½		106½	130	19.1	4.6	14.4
SA Brews		£18½xd	-⅛	£19⅛	£13¼	9,247	2.1	♦
Standard Bank		£28¼	+½	£29⅞	£21	3,383	1.9	♦
Tiger Oats	†	1060xd	+25	1080	770	1,832	1.7	20.1
Toogaat-Hulett		730xd	-¼	842	676¼	717.6	2.8	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1995
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
P Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

UK shares slide halted despite Wall St fall

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The slide in UK share prices, which extended to six straight sessions, was halted yesterday. Ironically, this was in the wake of the second biggest ever points fall in the Dow Jones Industrial Average, which fell 192 points on Monday evening.

The Dow's plunge, which came after a reported warning by Mr Ryutaru Hashimoto, the Japanese prime minister, that the Japanese might consider selling US Treasury bonds, did cause an instant mark down of UK stocks by marketmakers.

But the absence of any follow-on selling pressure saw London gather itself quickly and recoup all of its initial losses, before making strong progress as the day wore on.

The FTSE 100, which had fallen over 200 points since a report that the Labour government intended to abolish the 20 per cent tax credit on dividend payments as one of the central planks of its July 2 budget measures, finished the day 20.5 ahead at 4,596.3. It only just failed to drive back through 4,600, topping out at 4,598.6.

Although closing well above their lowest levels, the FTSE 250 and FTSE SmallCap indices did not enjoy the same level of recovery as the leaders.

The FTSE 250 was left with a 7.5 loss at 4,447.3, having fallen almost 30 points to 4,425.3, while the FTSE SmallCap settled 12.0 down at 2,234.4, after touching a session low of 2,233.4. The FTSE All-Share index rose 5.81 to 2,183.60.

London's recovery was helped along by Wall Street's substantial rally when the US market opened yesterday after assurances from Mr Hiroshi Mitsuzuka, Japan's finance minister, that the Japanese government had no intention of selling its US Treasury bond holdings.

The US bond market, which, although under pressure, never looked like matching the weakness of Wall Street overnight, picked up after the finance minister's comments. News of a surprisingly strong consumer confidence survey caused only a momentary upset for that market.

The Dow powered ahead to post a 70-point gain shortly after the opening and remained well supported later in the session, although it dipped off as London closed for the day.

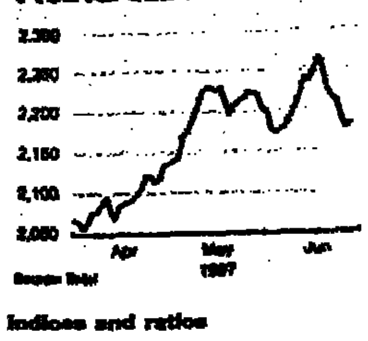
One of the main driving forces behind London was a continuation of the intense takeover speculation that has gripped the banking and insurance sectors of the market recently and especially since National Westminster Bank's move to cap its expansion plans for its NatWest Markets investment banking division.

Bank shares occupied four out of the top five places in the FTSE 100 performance table, headed by NatWest.

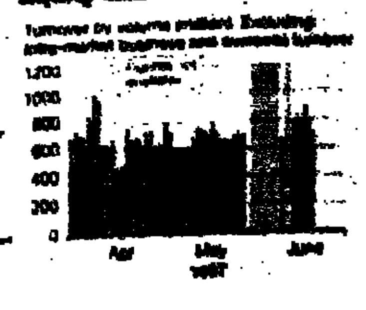
Marketmakers said London's resilience in the face of the overnight US sell-off was a clear demonstration that the near 5 per cent fall in the FTSE 100 marked the extent of the market's downside limits until next Wednesday's Budget is taken on board.

Turnover at the 6pm cut-off point reached 876.1m shares.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4596.3	+20.5	FT 30	2976.50	+4.2
FTSE 250	4447.3	-7.5	FTSE Non Fins p/e	18.55	18.56
FTSE 350	2226.3	+7.3	FTSE 100 Fut Jun	4628.0	+48.0
FTSE All-Share	2183.60	+5.81	10 yr Gilt yield	7.22	7.22
FTSE All-Share yield	3.55	3.56	Long gilt/equity yld ratio	2.04	2.04

Best performing sectors

1 Banks: Retail .... +2.1
2 Gas Distribution .... +1.4
3 Extractive Inds .... +1.3
4 Telecommunications .... +1.2
5 Utilities .... +1.0

Worst performing sectors

1 Electronic & Elct .... -1.2
2 Textiles & Apparel .... -1.0
3 Media .... -1.0
4 Breweries, Pubs .... -0.8
5 Paper, Packg .... -0.7

BSkyB down again

By Peter John and Martin Brice

BSkyB, deeply affected over the past few weeks by digital broadcasting worries, fell again as a new concern emerged.

A newspaper report said soccer clubs were considering setting up their own television service when their deal with Sky expires in 2001. The shares, already down 19 per cent since June 12 – partly due to the company being told to exit a group bidding for a digital television licence – were off another 19 to 467½p.

The article said a consultants' report had advised the soccer Premier League that its £670m four-year deal with BSkyB represents only half the value of the TV rights. Analysts noted that sports coverage had been important in attracting subscribers to Sky services.

Another press report suggested Cable & Wireless Communications and Telewest were in talks that could lead to a merger, increasing their ability to compete with BSkyB. C&W Communications rose 10½ to 319½p and Telewest 5 to 99p.

Granada and Carlton both gained substantial ground after the announcement that their British Digital Broadcasting joint venture would be awarded a licence for digital terrestrial broadcasting.

BSkyB withdrew its stake in the digital company to defuse the ITC's fears of a too dominant market share of BSkyB.

Carlton and Granada would each buy half of BSkyB's one-third stake in BDB for a total of £75m.

Carlton was up 8½ to 525p and Granada gained 19½ to close at 854½p.

Fevered takeover speculation in the banking sector kept share prices up and partly ensured London was able to shrug off Wall Street's big slide on Monday.

National Westminster, the epicentre of the rumours, jumped 41½ to 825p as banking analysts ran through the balance sheets of a number of sector rivals including Barclays, HSBC, Bank of Scotland and Standard Chartered.

Most brokers believe any tie-up involving the first two, would prompt heavy regulatory scrutiny but they also argue that anything is possible with the right degree of compromise.

Meanwhile, attention also shifted to Royal Bank of Scotland after the revival of old stories that a merger with HSBC would be plausible.

RBoS gained 15 to 598p while Barclays added 1½ at £11.70½p, HSBC 33½ at £18.62p, Bank of Scotland 7 at 385p and Standard Chartered 38½ at 912½p with additional support from a Merrill Lynch "buy" note.

SmithKline Beecham continued its recent underperformance, losing 19 to £10.48½. It said trials of a new rheumatoid arthritis drug had been halted after an apparent adverse immune system response in some patients.

The shares were also said to be affected by strength of sterling and news that US rival Eli Lilly had taken a charge to cover troubles at a drug distribution company similar to one owned by SB.

A note from NatWest Securities said it had shifted its stance from "hold" to "add" because the stock had underperformed the US drug sector by 12 per cent this month, and "a 20 per cent discount to the best of the US majors provides an excellent buying opportunity".

WH Smith continued the fall triggered by the news that chief executive Mr Bill Cockburn was leaving for a job at BT. Smith shares fell another 9 to 367½p. A note from NatWest Securities said the departure was "disturbing, particularly in the absence of a successor". It is also bearish on Smith's profits: the broker has downgraded its 1998 profits forecast by £5m to £141m.

It further points out that cost reduction is slowing and competition is increasing. These "bode ill for valuation. Despite similar problems, WH Smith remains on a 15 per cent premium to Storehouse." Storehouse was also down, slipping 4½ to 195p.

Elsewhere in the sector, Boots provided one of the few specks of blue on the screens, edging up 4½ to 696½p on buying interest. The shares were given impetus by the company's recent results. One trader said: "This is a retailer that does not disappoint. It is a defensive stock in a volatile and underperforming sector."

The search for safety among retailers prompted interest in Carpetright, which recently made positive comments on its profit margins.

Its shares also rose, by 10 to 478p.

Country Casuals gave up 12 to 113½p after it said it was no longer talking to Mr Mark Bunce about a possible offer.

Shares in First Leisure closed down 21 to 315p after the company said second-half trading was slower than expected, and unveiled results that confirmed a fall in the bingo side of the business.

In transport, FirstBus eased 1½ to 201p, while Stagecoach fell 5 to 635p and National Express was off 6 to 472½p.

Shares in bus companies that operate train services have weakened recently as investors have focused on the uncertain regulatory environment and the nearing to maturity of the bus market.

However, a detailed research document by Dresdner Kleinwort Benson rated FirstBus shares a "buy". It said FirstBus was the best placed of the larger bus companies.

The broker said: "Organic growth and the benefits from cost cutting will boost earnings at a significantly faster rate than the market." The railway activities have a value of 23.2p a share, it said.

DKB's team said it regarded recent fears concerning politics and regulation as overplayed, and it thought that FirstBus, currently trading at a discount of about 26 per cent to the market, should have a market rating, which indicated a share price of 290p.

P&O, still awaiting final clearance on its merger with Stena, eased 9½ to 605p. Its latest international port venture in Colombo is the subject of a bullish note from Flemings.

A broker's note from Lehman Brothers highlighted the impact on insurance companies of the US tobacco settlement. It points out that Royal & Sun Alliance, up 4 yesterday to 448½p, had 1.9 per cent of US market share of general liability business between 1950 and 1984, while General Accident, down 14 to 892½p, had 0.6 per cent.

Grand Metropolitan slipped 3 to 585½p although there has been buying pressure from across the Channel. LVMH of France, the luxury goods group, bought a further 250,000 shares in the company.

FT 30 INDEX

	Jun 24	Jun 23	Jun 20	Jun 19	Jun 18	Yr ago	*High	*Low
FT 30	2976.5	2972.0	2972.0	3015.1	3014.0	2714.1	3077.4	2668.8
Ord. div. yield	3.70	3.70	3.70	3.65	3.65	4.12	4.22	3.56
P/E ratio net	17.96	17.94	17.94	18.20	18.19	16.02	18.64	15.80
P/E ratio nil	17.78	17.76	17.76	18.02	18.01	15.93	18.46	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2948.2	2953.9	2965.1	2965.9	2970.2	2974.6	2976.5	2976.5	2973.3	2978.1	2948.2

	Jun 24	Jun 23	Jun 20	Jun 19	Jun 18	Yr ago
SEAQ bargains	48,380	53,862	49,805	44,837	45,854	29,158
Equity turnover (£m)†	-	NA	NA	2441.5	2582.8	18448.0
Equity bargains†	-	NA	NA	40,825	42,783	34,421
Shares traded (ml)†	-	NA	NA	684.1	707.3	711.1

†Excluding intra-market and overseas turnover but including Crest turnover

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	413	Total Highs	28	Total contracts	35,064
Total Falls	1,512	Total Lows	204	Calls	17,932
Same	1,147			Puts	17,132

Jun 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4550.0	4628.0	+48.0	4632.0	4543.0	13788	83814
Dec	4676.0	4686.0	+48.0	4676.0	4676.0	20	2239

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4518.0	4518.0	-3.5	4518.0	4518.0	78	7108

FTSE 100 INDEX OPTION (LIFFE) (*4594) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

	Jun 24	% chg on day	Jun 23	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Regional Indices								
Africa (14)	1505.85	-1.6	1530.31	2742.91	5.87	24.04	2917.88	1505.95
Australasia (6)	1651.80	-0.5	1660.11	2481.99	3.13	18.64	2481.99	1651.80
North America (11)	1379.29	-1.9	1405.81	1903.78	1.06	56.82	1884.08	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 24	Day's chge%	Jun 23	Jun 20	Jun 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4596.3	+0.4	4575.8	4593.9	4653.7	3679.5	3.54	2.04	17.30	91.23	1962.99
FTSE 250	4447.3	-0.1	4454.8	4485.0	4492.9	4384.5	3.72	1.61	20.91	94.45	1861.84
FTSE 250 ex IT	4456.0	-0.2	4464.1	4493.4	4501.1	4425.0	3.87	1.84	19.77	97.37	1870.59
FTSE 350	2226.3	+0.3	2219.0	2229.1	2253.2	1861.5	3.58	1.95	17.90	44.77	1942.68
FTSE 350 ex IT	2226.3	+0.3	2218.4	2228.2	2252.7	-	3.61	1.96	17.67	12.34	995.79
FTSE 350 Higher Yield	2165.2	+0.2	2161.7	2159.9	2189.2	1780.8	4.83	1.76	14.72	53.19	1801.80
FTSE 350 Lower Yield	2292.5	+0.5	2281.8	2293.5	2322.9	1949.4	2.64	2.26	21.82	35.75	1638.28
FTSE SmallCap	2234.38	-0.5	2246.36	2261.09	2265.17	2217.34	3.18	1.72	22.89	37.66	1898.22
FTSE SmallCap ex IT	2214.62	-0.6	2227.24	2240.89	2248.29	2219.43	3.43	1.80	20.28	40.35	1897.32
FTSE All-Share	2183.60	+0.3	2177.79	2187.93	2210.20	1849.55	3.55	1.94	18.17	43.39	1933.69
FTSE All-Share ex IT	2182.43	+0.3	2176.41	2186.25	2209.18	-	3.60	1.95	17.80	12.06	993.86

FTSE Actuaries Industry Sectors

	Jun 24	Day's chge%	Jun 23	Jun 20	Jun 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4368.02	....	4367.41	4366.16	4427.85	3459.71	3.50	2.01	17.77	88.75	1956.78
12 Extractive Industries(5)	4489.82	+1.3	4433.45	4425.12	4431.97	4309.80	3.51	2.38	14.98	104.80	1372.39
15 Oil, Integrated(3)	4490.70	-0.2	4498.58	4495.37	4567.18	3500.63	3.72	1.95	17.27	94.47	2068.68
16 Oil Exploration & Prod(12)	3649.43	....	3649.79	3669.83	3723.83	2489.01	1.59	2.21	35.63	37.61	2235.67
20 GEN INDUSTRIALS(267)	1918.93	-0.5	1927.70	1939.60	1953.68	2021.66	4.18	1.87	16.06	41.52	1098.35
21 Building & Construction(35)	1379.04	-0.4	1384.18	1391.08	1396.57	1200.87	3.19	1.88	20.99	25.53	1199.94
22 Building Matls & Merchs(30)	1853.17	-0.8	1864.36	1875.14	1891.91	1861.80	4.33	2.78	10.38	41.69	979.38
23 Chemicals(26)	2410.32	+0.2	2405.60	2453.78	2478.20	2420.44	4.38	1.48	19.29	64.32	1202.58
24 Diversified Industrials(16)	1295.26	-0.2	1297.82	1312.73	1318.82	1550.10	5.62	1.99	11.17	37.19	767.77
25 Electronic & Elect Equip(38)	2011.37	-1.2	2035.46	1998.34	2021.20	2342.47	3.92	1.53	20.82	17.88	1077.22
26 Engineering(68)	2550.34	-0.5	2561.94	2589.55	2606.31	2446.26	3.33	2.26	16.61	50.24	1609.04
27 Engineering, Vehicles(13)	2889.54	-0.3	2899.59	2894.93	2924.64	3037.86	3.55	‡	‡	54.73	1555.71
28 Paper, Pckg & Printing(27)	2062.33	-0.7	2076.12	2086.86	2088.15	2579.83	5.10	1.84	13.33	56.25	900.64
29 Textiles & Apparel(14)	1060.09	-1.0	1071.30	1072.21	1065.58	1370.85	6.60	1.00	19.02	41.78	897.73
30 CONSUMER GOODS(85)	4498.36	-0.2	4507.67	4538.29	4572.36	3521.11	3.43	1.80	20.22	88.91	1737.61
32 Alcoholic Beverages(7)	3270.00	-0.6	3290.97	3300.25	3366.92	2681.29	4.05	1.88	16.43	78.75	1243.43
33 Food Producers(25)	2911.64	-0.1	2915.03	2921.59	2963.73	2519.35	3.81	1.84	17.81	67.77	1379.59
34 Household Goods(17)	2961.18	....	2960.99	2961.88	2959.88	2630.75	3.51	2.31	15.39	59.44	1219.77
36 Health Care(15)	2248.97	+0.2	2245.43	2240.42	2233.53	2120.24	2.72	1.67	27.54	39.82	1414.78
37 Pharmaceuticals(18)	7204.77	-0.1	7211.83	7234.26	7278.51	5066.99	2.56	1.71	28.47	104.77	2529.22
38 Tobacco(3)	4644.48	-0.4	4664.39	4850.42	4800.00	4201.56	6.06	1.81	11.40	158.73	1239.38
40 SERVICES(272)	2582.96	-0.2	2588.84	2606.81	2639.98	2517.17	3.09	1.98	20.42	47.60	1394.51
41 Distributors(30)	2726.67	+0.1	2725.28	2748.61	2739.44	2894.25	3.42	1.94	18.84	52.52	1045.25
42 Leisure & Hotels(31)	3288.24	+0.8	3262.76	3275.99	3312.45	3259.63	2.83	1.82	24.29	62.16	1821.50
43 Media(44)	4068.55	-1.0	4108.89	4127.66	4181.23	4165.42	2.44	1.91	26.77	60.16	1511.38
44 Retailers, Food(15)	2062.75	+0.5	2052.86	2079.60	2109.06	2010.43	3.98	2.26	13.98	51.26	1376.80
45 Retailers, General(53)	2037.47	+0.3	2032.28	2055.16	2098.94	2070.80	3.45	2.06	17.60	46.82	1217.22
47 Breweries, Pubs & Rest.(22)	3079.97	-0.8	3104.94	3126.35	3169.76	3161.49	3.63	2.19	15.74	52.88	1535.97
48 Support Services(54)	2967.82	-0.9	2993.80	3013.97	3016.43	2431.45	1.74	2.71	26.49	22.83	1931.01
49 Transport(23)	2780.11	-0.2	2785.05	2785.62	2812.50	2353.58	3.59	1.38	25.29	56.35	1212.39
60 UTILITIES(31)	2885.24	+1.0	2857.38	2854.69	2878.07	2308.93	4.89	1.50	17.09	56.37	1335.10
62 Electricity(9)	3102.42	+0.8	3076.91	3085.92	3096.86	2546.16	5.73	1.99	10.96	108.23	1761.73
64 Gas Distribution(2)	1976.63	+1.4	1949.72	1928.17	1916.07	1216.84	6.17	‡	‡	68.13	1128.99
66 Telecommunications(8)	2381.64	+1.2	2354.49	2350.10	2385.68	1956.21	3.72	1.68	19.96	13.53	1130.95
68 Water(12)	2483.23	+0.2	2477.80	2489.87	2498.37	2124.33	6.60	2.30	8.24	74.51	1478.49
69 NON-FINANCIALS(675)	2206.89	-0.1	2208.35	2218.73	2240.86	1973.64	3.68	1.83	18.55	43.55	1754.89
70 FINANCIALS(108)	4230.17	+1.4	4171.03	4187.30	4238.89	2816.62	3.32	2.38	15.78	91.08	1910.66
71 Banks, Retail(10)	6494.98	+2.1	6360.89	6384.58	6465.56	3863.17	3.01	2.61	15.89	129.00	2223.11
73 Insurance(18)	1672.96	+0.1	1670.97	1671.05	1697.09	1417.18	5.19	2.52	9.54	54.89	1337.38
74 Life Assurance(7)	4824.58	+0.4	4807.23	4834.33	4726.09	3328.50	3.81	1.96	16.74	121.00	2020.02
77 Other Financial(29)	3130.64	-0.2	3136.52	3164.76	3175.46	2650.60	3.37	2.01	18.41	61.10	1865.39
79 Property(44)	1940.17	-0.2	1944.43	1950.13	1961.75	1512.29	3.32	1.33	28.35	34.45	1248.01
80 INVESTMENT TRUSTS(127)	3384.96	.....	3385.89	3414.94	3419.15	3142.74	2.23	1.17	47.89	43.90	1214.85
89 FTSE All-Share(910)	2183.60	+0.3	2177.79	2187.93	2210.20	1849.55	3.55	1.94	18.17	43.39	1933.69
105 FTSE All-Share ex IT(783)	2182.43	+0.3	2176.41	2186.25	2209.18	-	3.60	1.95	17.80	12.06	993.86
FTSE Fledgling	1258.39	-0.7	1267.89	1276.70	1279.24	1265.65	3.18	0.75	52.34	21.43	1380.76
FTSE Fledgling ex IT	1263.75	-1.7	1274.21	1283.81	1287.40	1281.27	3.53	0.72	48.85	21.22	1358.28
FTSE AIM	1053.2	-0.3	1057.2	1058.2	1059.3	-	1.04	1.20	80.00†	3.59	985.64

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4538.3	4549.8	4569.0	4573.6	4581.4	4586.7	4591.4	4595.8	4594.5	4598.8	4538.3
FTSE 250	4426.5	4428.9	4437.7	4439.9	4440.8	4441.5	4444.3	4448.4	4447.5	4448.8	4425.4
FTSE 350	2201.6	2206.4	2214.7	2216.7	2219.8	2222.8	2224.1	2226.2	2225.8	2227.3	2201.6
FTSE SmallCap	2234.84	2233.54	2234.68	2234.39	2234.60	2234.61	2233.90	2234.58	2234.45	2234.84	2233.44
FTSE All-Share	2161.12	2165.34	2173.05	2174.85	2177.71	2180.40	2181.57	2183.54	2182.99	2184.51	2161.12

Time of FTSE 100 Day's high: 2:48 PM Day's low: 8:30 AM. FTSE 100 1997 High: 4598.3 (24/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 2:48 PM Day's low: 8:30 AM. FTSE All-Share 1997 High: 2183.60 (24/06/97) Low: 1969.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletion: Biocure (FTSE Fledgling). Quality Software (FTSE Fledgling). Cullen's (FTSE Fledgling). Insert: John Lusty (FTSE Fledgling)

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded. † Indicates an FTSE 100 index constituent. All figures are rounded. Source: Reuters. See part of FT information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 24 / Sch)

BELGIUM/LUXEMBOURG (Jun 24 / Frs.)

CZECH REP (Jun 24 / Koruna)

DENMARK (Jun 24 / Kr)

FINLAND (Jun 24 / Mks)

FRANCE (Jun 24 / Frs.)

GERMANY (Jun 24 / Dm.)

GREECE (Jun 24 / Drachma)

ITALY (Jun 24 / Lire)

NETHERLANDS (Jun 24 / Fl.)

NORWAY (Jun 24 / Kroner)

POLAND (Jun 24 / Zloty)

PORTUGAL (Jun 24 / Escudo)

SPAIN (Jun 24 / Pts.)

SWEDEN (Jun 24 / Kronor)

SWITZERLAND (Jun 24 / Frs.)

TURKEY (Jun 24 / Tk Lira)

PACIFIC

JAPAN (Jun 24 / Yen)

HONG KONG (Jun 24 / H.K.$)

INDONESIA (Jun 24 - Rupiah)

MALAYSIA (Jun 24 / MYR)

NEW ZEALAND (Jun 24 / NZ $)

SINGAPORE (Jun 24 / S$)

AUSTRALIA (Jun 24 / Aust$)

SOUTH KOREA (Jun 24 / Won)

TAIWAN (Jun 24 / TW $)

THAILAND (Jun 24 / Baht)

AFRICA

SOUTH AFRICA (Jun 24 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 24 / Can $)
4 pm close

MONTREAL (Jun 23 / Can $)
Closed Jun 24

INDICES

	Jun 24	Jun 23	Jun 20	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	22873.93	23124.16	23177.89 19/6	19237.37 2/1
Australia					
All Ordinaries(1/1/80)	2688.4	2708.3	2712.6	2712.60 20/6	2352.20 1/4
All Mining(1/1/80)	934.1	945.7	949.4	987.10 24/2	878.49 16/4
Austria					
Credit Aktien(30/12/84)	408.20	409.62	411.96	431.07 5/6	374.40 9/1
Traded Index(2/1/91)	1283.69	1290.87	1302.47	1310.78 27/5	1130.22 9/1
Belgium					
BEL20(1/1/91)	2355.19	2351.62	2361.64	2400.35 13/6	1871.06 2/1
Brazil					
Bovespa(29/12/83)	(u)	12239.0	12121.0	12239.00 23/6	6956.80 2/1
Canada					
Metals Minls♦(1975)	(u)	5164.11	5321.78	5891.75 10/3	4945.98 11/4
Composite♦(1975)	(u)	6437.70	6511.40	6550.88 13/6	5579.30 14/4
Portfolio§§(4/1/83)	(u)	3252.51	3299.87	3330.90 13/6	2849.02 11/4
Chile					
IGPA Gen(31/12/80)	(u)	5729.58	5760.31	5843.79 13/6	4912.42 2/1
Denmark					
CopenhagenSE(3/1/83)	591.53	592.16	591.88	592.16 23/6	470.14 3/1
Finland					
HEX General(28/12/90)	3178.33	3157.88	(c)	3178.33 24/6	2483.28 2/1
France					
SBF 250(31/12/90)	1828.58	1814.11	1811.27	1838.29 16/5	1533.19 2/1
CAC 40(31/12/87)	2784.76	2762.20	2757.10	2808.52 13/6	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1276.84	1280.22	1289.91	1289.91 20/6	986.21 2/1
Commerzbank(1/12/53)	3763.40	3775.00	3798.80	3798.80 20/6	2875.80 2/1
DAX(30/12/87)	3755.82	3754.72	3788.27	3788.27 20/6	2848.77 2/1
Greece					
Athens SE(31/12/80)	1498.94	1467.92	1500.37	1727.70 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	14890.98	15021.23	15154.36	15154.36 20/6	12055.17 3/4
India					
BSE Sens.(1979)	4119.39	4089.20	4083.04	4118.39 24/6	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	719.38	719.83	712.22	719.83 23/6	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3353.28	3356.84	3360.49	3358.48 13/6	2725.07 2/1
Italy					
Banca Comm Ital(1972)	839.27	827.54	822.45	839.27 24/6	642.55 2/1
MIB General(2/1/97)	1261.0	1243.0	1237.0	1261.00 24/6	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20341.93	20436.14	20385.54	20681.07 16/6	17303.65 10/1
Nikkei 300(1/10/82)	296.82	296.17	295.85	298.50 16/6	261.04 27/1
Malaysia					
KLSE Comp.(4/4/86)	1077.92	1088.96	1097.54	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(u)	4436.75	4439.14	4439.14 20/6	3360.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1014.0	1013.8	1012.4	1014.00 24/6	730.80 2/1
CBS All Shr(End 83)	585.9	585.8	585.0	585.90 24/6	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2398.97	2414.87	2423.80	2440.21 20/1	2207.48 1/4
Norway					
Oslo SE(Ind)(2/1/83)	1992.48	1985.79	1986.57	1992.48 24/6	1898.03 2/1
Philippines					
Manila Comp(2/1/85)	2818.27	2808.66	2861.73	3447.80 3/2	2489.38 20/5
Portugal					
BVL 30(4/1/93)	3135.02	3144.93	3144.70	3170.84 16/6	2186.57 2/1
Singapore					
SES All-S'pore(2/4/75)	494.13	493.47	489.35	573.88 17/2	479.94 29/4
South Africa					
JSE Gold(28/9/78)	1018.6♥	1015.1	1027.4	1588.10 27/2	1015.10 23/6
JSE Indl.(28/9/78)	8624.2♥	8568.8	8511.5	8624.20 24/6	7859.50 3/1
South Korea					
KoreaCmpEx**(4/1/80)	753.70	753.05	770.22	792.28 17/6	611.05 7/1
Spain					
Madrid SE(30/12/85)	592.08	592.39	589.72	592.39 23/6	434.64 2/1
Sweden					
AffarsvarldenGen(1/2/37)	2984.2	2972.2	(c)	2984.20 24/6	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5576.1	5587.8	5561.8	5587.80 23/6	3822.90 7/1
SPI General(1/6/87)	3525.48	3530.10	3518.12	3530.10 23/6	2608.22 6/1
Taiwan					
Weighted Pr.**(30/6/66)	8918.17	8926.12	8882.13	8925.12 23/6	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	493.13	504.53	480.25	858.97 22/1	464.27 19/6
Turkey					
IMKB Nat 100(1986)	1684.00	1774.00	1642.00	1774.00 23/6	695.00 2/1
WORLD					
MS Capital Intl(1/1/70)	934.6*	932.0	941.8	941.80 20/6	794.50 14/4
CROSS-BORDER					
Eurotrack 100(25/10/90)	2479.83	2468.98†	2463.84	2479.83 24/6	1893.88 2/1
FTSE E 100(26/6/90)	2084.44	2076.02	2077.71	2092.86 13/6	1582.99 2/1
HSBC JC Drgn(31/12/88)	(u)	424.35	426.28	429.48 20/1	381.54 29/4
ING Bmgs Emrg(7/1/92)	188.05	188.11	187.63	188.11 23/6	159.74 3/1

US INDICES

Dow Jones	Jun 23	Jun 20	Jun 19	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7604.26	7796.51	7777.06	7796.51 (20/6)	6391.69 (11/4)	7796.51 (20/6/97)	41.22 (8/7/32)
Home Bonds	103.29	103.44	103.06	103.63 (19/2)	101.09 (14/4)	109.77 (19/10/93)	54.99 (1/10/81)
Transport	2737.87	2756.62	2732.76	2758.62 (20/6)	2222.07 (2/1)	2758.62 (20/6/97)	13.23 (8/7/32)
Utilities	223.38	226.04	225.86	249.86 (22/1)	209.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7816.87 (7868.44) Low 7592.04 (7733.64) (Theoretical♦)
Day's high 7797.87 (7834.06) Low 7602.45 (7777.06) (Actual♦)

Standard and Poors	Jun 23	Jun 20	Jun 19	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	878.62	898.70	897.99	898.70 (20/6)	737.01 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1031.36	1054.79	1053.72	1054.79 (20/6)	865.42 (11/4)	1054.79 (20/6/97)	3.52 (30/6/32)
Financial	101.36	104.16	104.16	104.16 (19/6)	80.75 (2/1)	104.16 (19/6/97)	7.13 (4/9/74)
NYSE Comp.	458.49	467.84	467.76	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.84 (25/4/42)
Amex Comp.	620.42	623.27	628.30	630.18 (13/6)	541.20 (28/4)	630.18 (13/6/97)	524.20 (16/7/96)
NASDAQ Cmp	1434.32	1447.10	1447.14	1447.14 (19/6)	1201.00 (2/4)	1447.14 (19/6/97)	54.87 (3/10/74)

■ RATIOS

	June 20	Jun 13	Jun 6	Year ago
Dow Jones Ind. Div. Yield	1.65	1.64	1.70	2.17
	Jun 18	Jun 11	Jun 4	Year ago
S & P Ind. Div. yield	1.59	1.62	1.69	1.87
S & P Ind. P/E ratio	24.27	24.13	23.32	22.22

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Ph Morris	14,424,400	42⅞	-2⅞
Tandem	13,930,400	20⅝	+5⅝
Wheelabrtor	5,636,300	15⅝	-⅛
Compaq	4,648,900	104	-2⅞
IBM	4,637,800	87⅞	-2
Boeing	4,273,300	54⅝	-2⅛
Pennzoil	4,248,800	77⅛	+17⅞
PepsiCo	4,050,000	37⅜	-1⅛
Barrick Gld	3,570,700	22⅝	-⅞
Tosco	3,164,200	28⅝	-1⅞

■ TRADING ACTIVITY

● Volume (million)	Jun 23	Jun 20	Jun 19
New York SE	498.025	656.469	541.119
Amex	24.925	28.818	27.008
NASDAQ	563.010	623.720	662.409
NYSE			
Issues Traded	3,375	3,368	3,374
Rises	814	1,108	1,742
Falls	1,781	1,465	790
Unchanged	780	792	842
New Highs	196	288	368
New Lows	19	15	14

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
Jun	2748.0	2776.0	+17.0	2787.0	2743.0	38,207	32,295
Jul	2745.0	2774.0	+17.0	2793.5	2742.0	10,204	10,534
■ DAX							
Sep	3730.0	3780.0	+1.0	3802.0	3722.0	21,449	81,114
Dec	3753.5	3809.0	+3.5	3827.5	3753.5	71	1,449
■ OMX							
Jun	2346.00	2373.00	+9.00	2378.00	2346.00	9,721	17,354
Jul	2355.00	2381.25	+9.75	2383.00	2354.00	7,863	10,358
■ SOFFEX							
Jun	5538.0	5570.0	-10.1	5608.6	5534.0	4,674	19,201
Jul	5544.0	5576.5	-7.0	5613.5	5540.0	12	426

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Sep	881.75	894.50	+12.75	894.50	880.65	66,328	172,365
Dec	904.00	904.50	+13.30	904.50	899.50	195	4,132

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Sep	20300.0	20370.0	-40.0	20400.0	20230.0	16,907	157,189
Dec	20300.0	20310.0	-	20320.0	20300.0	93	1,423

Open interest figures for previous day.

** Sat June 21: Taiwan Weighted Price 8833.83; Korea Comp Ex 780.40. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7; JSE 20 Ind – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Stand & Poor's – 10; and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jun 24 - 3781.07 +12.26. † Correction. * Calculated at 15.00 GMT ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, June 24, 1997

	Stocks Traded	Closing Prices	Change on day
Sakura Bank	9.1m	851	+9
Fujitsu	6.9m	1590	
Nippon Steel Cp	6.8m	351	
Hitachi	5.4m	1330	-10
LTCB	5.3m	493	+32
NKK Corp	5.1m	234	-3
Bk Tk-Mitsubishi	4.6m	2220	+40
NGK Insulators	4.1m	1200	+10
Sumitomo Bank	4.1m	1770	+20
Sanwa Bank	3.8m	1610	-30

Prices supplied by Extel, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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4 pm close June 24

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- N -

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- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close June 24

NYSE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
61⅛	48	Saloman x	0.64	1.1	7	2714	58⅞	56¼	55	-1
16	12⅞	SantaFeEts				2003	14⅝	13⅞	14	+
39¼	34⅞	SFePPipe	3.00	7.8	10	101	38½	38	38⅛	
43⅞	36⅞	SaraLee x	0.84	2.0	21	11228	42	41	42	+⅜
61⅞	49⅝	SBC Cm	1.79	2.9	17	12218	60¾	59¼	60	-⅝
26⅞	23⅝	Scana Corp x	1.51	6.1	12	1145	24¾	24	24⅝	-⅛
9⅛	7⅞	SchawkA x	0.26	2.9	34	8	9	8	8⅞	
62	44½	ScheringP			23	280	55	54	55	+1
49⅝	31¾	SchlR	0.76	1.6	28	10805	49	47	49	+1¼
126¼	98	Schlmb x	1.50	1.3	32	9349	120⅛	118¼	119	+2
42⅞	30⅞	Schwab(C)	0.20	0.5	29	7177	42	40½	41	+
39½	29⅝	SciAtlant	0.60	1.5	16	941	u40½	39½	40½	-1½
23½	14¼	SciAtl	0.06	0.3	67	2003	22	21⅞	22⅛	-⅛
29⅛	23	Scotsman	0.10	0.4	14	19	27	26⅞	27	+⅛
14⅞	12⅞	ScuddNAsF	0.03	0.2		919	u14⅞	14	14	-⅛
16½	13⅝	ScuddrNEuF	0.06	0.4		93	16¼	16	16¼	+⅛
23	15⅛	SeaCnt	0.77	3.3	16	541	u23⅛	22⅞	23⅛	+⅛
17½	15⅛	SeaC1.4625	1.46	8.6		z0	17	17	17	
58¼	38⅝	S'gate				1138842	36	d34⅞	35½	-⅛
42¾	35¼	Seagrm	0.66	1.6		3948	40⅞	39	40⅜	+½
20⅛	15¾	Seagull En			90	2528	18⅛	17½	17	+
49⅝	39¾	Sealed Air			27	393	48⅞	47⅝	47⅝	
58¾	44⅝	SearsR x	0.92	1.7	16	12500	54	53⅛	53	-
25	21	SeCpSBII	1.30	5.8	13	1471	22⅞	22⅞	22½	-⅛
13	12⅞	Seligm Sel x	0.84	6.6		65	12⅞	12¾	12	-
18	14½	Sensormat	0.22	1.5	73	1534	15	14⅝	14	-
54¼	36¼	SequaA	0.60	1.1	55	48	53	52¼	52⅞	-⅛
57	47½	SequaB	0.50	0.9	57	34	55½	55	55	-½
36	26⅞	ServCp	0.30	0.9	25	6510	34½	34	34½	-½

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
24	17¾	Zero	0.12	0.5	19	230	u24	23½	24	+
12⅛	10¾	ZweigFd	1.20	9.9		358	u12⅛	12	12⅛	
8⅞	8	Zweig Toll x	0.84	9.6		724	u8⅞	8¾	8¾	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

AMEX PRICES

4 pm close June 24

NASDAQ NATIONAL MARKET

4 pm close June 24

-K-

Stock	Div	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	43	44	u14⅛	13¾	13¾	-⅜
Kaman Cp	0.44	28	1499	u15¾	14¾	15	+1
Kelly Sv	0.84	15	1849	u31	30¼	30¾	+½
Kimball x	1.16	14	702	39⅞	38¾	39½	+½
KLA-Tn		26	11826	51½	49½	50⅝	+
Koll A			564	⅛	0.11	0.11	
Komag		15	7741	25	24¼	24	+
Kulicke S			6268	30	28¾	30	+1⅞

Stock	Div	P/E	Sls 100s	High	Low	Last	Chng
Presstek		173	698	92	89	91	+1
ProdePhs		10	1870	21⅞	21⅛	21¾	+⅜
Printrom		17	153	14¾	14½	14¾	+¼
Prod Ops	0.28	35	z0	70½	70½	70½	
Qualcomm		102	5061	50	49	50	+1¼
Qual Food		22	z0	39⅞	39⅞	39⅞	-¼
Quantum		18	37448	22½	21¾	21	+½
Quickslv		19	225	32¼	31¼	32	-⅝
Quintiles		220	3536	66	64¼	66	+1½

-X-Y-Z-

Stock	Div	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		35	15788	51	48¾	50⅜	+1
Xircom		18	2113	12¾	12	12⅜	+
Xoma Corp			1597	5	4	4	+
Yellow			8282	u23⅞	22¾	23⅝	+
York Rsch		15	1402	8	7½	7½	-
ZionsUtah	0.44	19	834	33⅝	32¾	33½	+⅜

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.875	-0.125	2362110	8.25	3.375	Innogenetics	US$11.5		15135	12.75	10.375
Artwork Systems	US$10.25		21965	11.125	9.5	Lernout & Hauspie	US$25.625	+0.375	24320	25.25	25
Chemunex	FFr15		0	18	14	Mercer Internat.	US$9.375	-0.5	50	11.75	8.125
Dr Solomon's ADS	US$24.375		0	26.5	16.875	PixTech	US$3.875	-0.125	0	8.125	3.875
Esprit Telecom ADS	US$7.875	-0.125	0	12.25	5.375	Schoeller-Bleckmann	Sch1005	-10	61570	1015	900

Prices for 24/6/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
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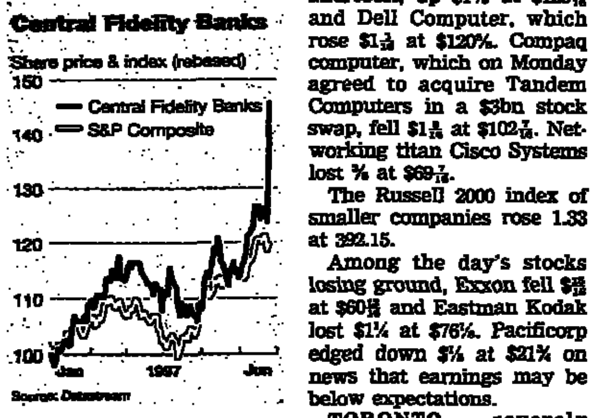
US shares recover at midsession

AMERICAS

Buyers returned as Wall Street reopened following Monday's 192-point plunge for the Dow Jones Industrial Average, *writes John Labate in New York.*

By midday the Dow had rebounded 30.98 at 7,635.92, after being up more than 80 points earlier in the day. Monday's sell-off was triggered by concern about comments by Mr Ryutaro Hashimoto, Japan's prime minister, who warned during a visit to New York that his government could consider selling US Treasury securities.



"There was an over-reaction to a veiled threat yesterday, but the market now has other things to concern itself with," said Mr Steven Shobin at Lehman Brothers.

Morning gainers included Bristol-Myers Squibb, up $5¼ or 6.9 per cent at $81¾ on news of a recommendation in favour of regulatory approval of Taxol, its cancer drug. Other leading drug producers also had a strong morning, with Merck rising $2 7/16 at $101 1/16 while its rival, Warner Lambert, increased $3 5/8 at $117 11/16. Philip Morris rose $1¼ at $43¾. IBM, continuing a strong upward trend, rose $2 7/16 at $90 7/16.

Big stocks were not alone in the recovery from Monday's slide. The broader based Standard & Poor's 500 index rose 3.89 at 882.51. A takeover announcement by Wachovia, the North Carolina-based bank of Central Fidelity Banks, sent Central's shares surging $5 13/16, an increase of 18.2 per cent, at $37 11/16. Wachovia's shares were less fortunate, trading down $1 5/16 at $61 7/16.

The technology-weighted Nasdaq composite rose 4.09 at 1,438.52. Gainers included Microsoft, up $1¾ at $129 7/16 and Dell Computer, which rose $1 1/16 at $120¾. Compaq computer, which on Monday agreed to acquire Tandem Computers in a $3bn stock swap, fell $1 1/16 at $102 7/16. Networking titan Cisco Systems lost ¾ at $69 1/16.

The Russell 2000 index of smaller companies rose 1.33 at 392.15.

Among the day's stocks losing ground, Exxon fell $ 9/16 at $60 9/16 and Eastman Kodak lost $1¼ at $76¼. Pacificorp edged down $¼ at $21¾ on news that earnings may be below expectations.

TORONTO, severely dented on Monday following the near 200-point decline on Wall Street, moved higher in early trading. Banks were a firm feature, and by the noon calculation the 300 composite index had recovered 20.59 at 6,458.30.

Banks moved ahead strongly to lead the morning's sector performance charts, helped by a better showing for Canadian bonds. Royal Bank of Canada advanced C$1.00 to C$63 and Toronto Dominion Bank gained 55 cents to C$42.80. Bank of Montreal hardened to C$53.80, a rise of 50 cents.

Among industrials, Southam shot up C$1.25 to C$23.50 after minority shareholders rejected the takeover bid from Hollinger. Southam is Canada's largest newspaper chain by circulation, publishing 58 free and paid circulation newspapers and 32 dailies. Newbridge Networks lost 50 cents to C$59.

Sao Paulo 1.9% ahead

SAO PAULO opened sharply higher and spent the rest of the morning moving steadily ahead.

"It was strong from the opening bell. The buyers just kept coming," said one broker.

Solid gains in ADR form in New York for a number of leading stocks set the tone, and at midsession the Bovespa index was up 227 or 1.9 per cent at 12,466. Telebras ended the morning session with a gain of 1.5 per cent to R$158.50.

MEXICO CITY continued to suffer mild profit-taking, giving up early gains to trade at midsession with the IPC index 5.73 lower at 4,431.02.

Cemex edged ahead by 50 centavos to 35.10 pesos and Bancomer, the big financial group, added 3 centavos to 3.95 pesos.

But Telmex retreated, slipping down 14 centavos to 19 pesos in light volume.

SANTIAGO also failed to respond to the rally on Wall Street. At midsession the IPSA index was off 0.36 at 131.14.

Johannesburg rises strongly

South African equities continued to rise strongly with the Johannesburg all-share index ending 47.3 higher at 7,333.6 for a three-day gain of nearly 125.

Golds rallied gently in spite of another dull session for the bullion price, but the main drive continued to come from the broad market where industrials again featured. Golds hardened 3.5 to 1,018.6 and industrials advanced by 55.4 to 8,624.2. Three sessions ago the industrials index stood at 8,433.8.

Towles, Edgar Jacobs unveiled restructuring plans and promptly surged R4.50 to a new high of R7.50. Among golds, Vaal Reefs came off R1.50 to R234.50.

Paris springs back to life in busy session

EUROPE

Leading bourses made light of the heavy overnight falls on Wall Street, a view that the early rally for US equities appeared to vindicate.

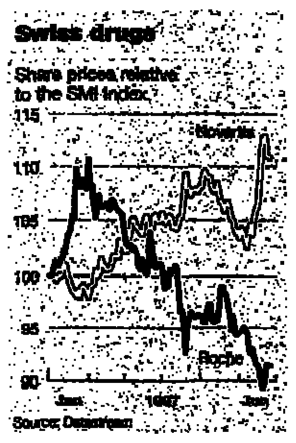
PARIS sprang to life with 30.1m shares changing hands in one of the busiest sessions of the year. There was heavy intra-market trading in a handful of leading stocks. At the close the CAC 40 index was up 22.56 at 2,784.76.

Oils led the activity charts. Total rose FFr11 to FFr557 in 4.1m shares traded and Elf Aquitaine, up FFr6 at FFr632, was also in the thick of the action. Alcatel Alsthom, another actively traded leader, surged FFr27 or 3.9 per cent to FFr712.

The drinks sector had a bad day. LVMH came off FFr20 to FFr1,483 after the group topped up its stake in Grand Metropolitan of the UK. Pernod Ricard was downgraded by Lehman Brothers and fell FFr2 to FFr304.4.

Broker Cholet Dupont stepped up its earnings estimates at Moulinex and the shares jumped FFr9.50 or 6.3 per cent to FFr59.5.

FRANKFURT edged ahead as Wall Street's early rebound helped to support the market but failed to inject new optimism. The Ibis-indicated Dax index finished 12.28 higher at 3,761.07 in volume of DM12.6bn.



Trading was highly selective with much of the afternoon's attention centred on Deutsche Bank and Siemens, the electronics and engineering group.

Deutsche jumped DM4.30 to DM101.85 and Siemens was DM3.70 ahead at DM107.50. Analysts said there was no fundamental reason for interest in either share but both attracted buyers as they topped the DM100 level.

ZURICH turned back after a four-day record-setting run, but not before the SMI index had set a new intra-day high of 5,611. The index finished 12.2 lower at 5,575.6 after a volatile day that also saw the index dip to 5,529.6 at one stage.

In London, Robert Fleming Securities reiterated its contention that the market was expensive and said the medium-term appreciation potential was limited should the unusually benign market conditions take a turn for the worse.

Novartis continued to give up some of last week's surge, falling SFr10 to SFr2,266. Roche certificates, up SFr80 at one stage on news that the US Food and Drug Administration had approved its Posicor high blood pressure and angina drug treatment, finished SFr10 weaker at SFr13,490.

A SFr28 slide in UBS to SFr1,688 was attributed to technical factors.

Nestlé, up at an early SFr1,922 on declining coffee prices and expectations for strong sales in emerging markets, finished just SFr6 higher at SFr1,896.

AMSTERDAM rallied modestly. Nedlloyd was a feature following news of reshuffled global shipping links and the planned sale of its stake in Smit Internationale. The AEX index ended 0.20 higher at 861.06.

Nedlloyd added 90 cents at Fl 55 while among financials Aegon gained Fl 1.40 to Fl 138.4. Among smaller caps, Baan put on Fl 3.50 to Fl 133 and Tulip advanced Fl 2.40 to Fl 21.9. Smit, facing a severe stock overhang, fell Fl 1.20 to Fl 48.

Goudsmit surged Fl 37.10 to Fl 306 after the temporary employment agency announced a planned takeover. In the same sector, Randstad rose Fl 4.60 to Fl 203.5.

MILAN, optimistic early in the day on growing hopes for a cut in interest rates after the preliminary June inflation data, finally ran into profit-taking. The Comit index registered another rise, 11.73 to another 11-year high of 839.27, but the real-time Mibtel index finished 1 weaker at 13,316, reflecting the late pull-back.

Eni traded up L105 at L9,505, in spite of the continuing public placement for which the government has fixed a maximum price of L9,325.

Parmalat was down L50 at L2,525 on worries that the group could still call for a capital increase to fund its takeover of Ault Foods.

Benetton finally ran into profit-taking with a L672 tumble to L27,200. The shares had surged 26.9 per cent over the previous 10 sessions as a number of analysts turned bullish over the company's outlook.

STOCKHOLM moved up to another record with the general index ending 11.02 higher at 2,943.82. Avesta Sheffield came in for positive comment from brokers, rising SKr4 or almost 5 per cent to SKr91.50 and there were further gains in the drugs sector.

Astra put on SKr1.50 to SKr141 and Pharmacia & Upjohn rose SKr3.50 to SKr270 amid talk that demand for the group's Nicorette anti-smoking products could be given a boost by the present high-profile tobacco litigation in the US.

ISTANBUL reversed direction, diving 5.1 per cent, after Mrs Tansu Ciller, the conservative leader, refused to discuss a planned secularist pact in talks with Mr Mesut Yilmaz, the prime minister-designate. The IMKB National-100 index tumbled 90 to 1,684.

The index had surged 8 per cent up to a record close on Monday amid hopes that Mr Yilmaz could secure the support of deputies from Mrs Ciller's True Path party, essential if he is to be assured of winning a simple majority in a parliamentary vote of confidence.

ATHENS regained its footing, as shares rebounded 2.1 per cent after their recent sharp pull-back. The improvement came in spite of continuing concerns about inflation in the second half of the year and firmer inter-bank rates.

The general index picked up 31.02 at 1,498.94 in turnover of Dr16.4bn.

MOSCOW remained on an upward path, rallying 2.9 per cent to a fourth consecutive record high on further substantial inflows of new investment from the US and Europe.

The RTS index closed 11.73 higher at 412.82 in turnover that remained heavy at $66m, although down from Monday's $72m.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 24					THE EUROPEAN SERIES			
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2467.13	2471.01	2472.88	2473.76	2474.46	2478.82	2480.57	2479.83
FTSE Eurotrack 200	2456.19	2457.12	2458.67	2461.80	2463.24	2466.28	2466.46	2464.67

	Jun 23	Jun 20	Jun 19	Jun 18	Jun 17
FTSE Eurotrack 100	2468.56	2483.84	2455.80	2427.38	2446.48
FTSE Eurotrack 200	2453.47	2461.40	2455.01	2427.50	2454.20

Base value 1000 (26/10/90); High/day: 100 - 2481.38; 200 - 2468.00 Low/day: 100 - 2467.13 200 - 2454.82 † Partial.
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Tokyo falls back on threat of US bonds sell-off

ASIA PACIFIC

Tokyo fell on New York's overnight plunge following suggestions by Mr Ryutaro Hashimoto, Japan's prime minister, that Japan might sell off holdings of US Treasury bonds to help stabilise yen-dollar exchange rates, *writes Gwen Robinson.*

The Nikkei 225 average fell 94.21 to 20,341.93 after moving between 20,215.12 and 20,383.34. Stocks opened lower following New York's sharp setback overnight. After losing more than 200 points in the morning, the 225 index resisted further declines and moved narrowly in the afternoon.

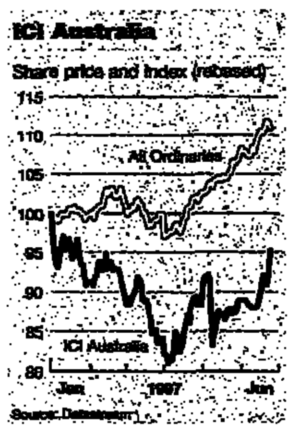
However, many investors remained reluctant to take big positions ahead of Wednesday's publication of the Bank of Japan's quarterly "*tankan*" survey of business conditions. If the outlook is weak, as economists predict, the market will receive reassurance that interest rates will remain low. If the report is stronger than expected, share prices may dive on fears of an imminent interest rate increase.

Other key indices advanced. The Topix index of all first-section stocks gained 1.05 to 1,531.97 and the capital-weighted Nikkei 300 was up 0.45 at 296.62. Volume rose from 296m shares to an estimated 368m. Declines led advances 713 to 357 with 178 unchanged.

In London, the ISE/Nikkei 50 index rose 1.14 to 1,606.68.

Blue chip exporters were mixed on the dollar's depreciation against the yen and the market's renewed anxiety about exchange rate turbulence.

TDK fell Y110 to Y8,250, Sony Y30 to Y9,840, and Pioneer Electronic Y40 to Y2,730. Advantest shed Y20 to Y8,500 and Tokyo Electron Y30 to Y5,650. However, carmakers fared well, with Honda gaining



Y60 to Y3,330, Toyota Y30 to Y3,380 and Nissan Y10 to Y817.

Sakura Bank, the day's most active issue, rose Y9 to Y851 and Shizuoka Bank climbed Y60 to Y1,310 following reports that the two banks were planning share buy-backs.

In contrast, securities houses mostly retreated. Daiwa Securities shed Y13 to Y890 and Yamaichi Securities Y5 to Y319. Nomura Securities, however, rose Y30 to Y1,450.

Pharmaceuticals mostly fell. Yamanouchi Pharmaceutical fell Y30 to Y3,040 and Takeda Chemical Y20 to Y3,150, although Sankyo added Y20 to Y3,670.

In Osaka, the OSE average fell 60.36 to 21,125.94 and volume rose to 22.4m shares.

SYDNEY suffered from Wall Street's heavy overnight loss and at the close the All Ordinaries index was down 17.9 at 2,688.4 after touching a session low of 2,672.5.

Chemicals showed an improvement thanks to a 3.2 per cent rise for ICI Australia on the news that ICI of the UK planned to sell its 62.4 per cent stake in the company. The shares jumped 40 cents to A$13. Institutional demand was said to be heavy

There was plenty action among media shares. Fairfax came off 10 cents to A$3.15 in 11.7m shares traded. Dealers said one top broker was a big buyer on behalf of Brierley Investments.

HONG KONG looked to Wall Street for an excuse to trim holdings and take profits ahead of the coming long holiday weekend.

The Hang Seng index, down 220 early in the day, recouped some of the deficit to close 130.27 at 14,890.96, in turnover that dipped from recent heavy levels to HK$17.4bn.

Brokers said the impact of the Dow's fall was, however, limited because investors were shifting their focus from the US to the Chinese market and economy ahead of the territory's reversion to China.

Blue chips tended lower with HSBC down HK$2 to HK$228 and Sun Hung Kai Properties HK$1.25 weaker at HK$82.50.

SINGAPORE stirred itself from the doldrums, helped by a revival in demand for Van der Horst after the troubled engineering-based company sought to reassure analysts that the business was sound.

The Straits Times Industrial index closed up 6.59 at 2,041.28 in light volume of 159m shares.

Van der Horst picked itself up from an early 45-month low of S$1.98 to close 8 cents better at S$2.27.

KUALA LUMPUR followed Wall Street down although the composite index held its loss to one of 11.06 or 1 per cent at 1,077.92.

Large caps were mostly lower while tobacco issues were further weakened on continuing worries of spill-over effects from the landmark US tobacco litigation agreement. Rothmans fell 25 cents to M$25.50.

The requoted stock of MBf Capital skidded 98 cents or 18.9 per cent to M$4.22 on Monday's news that the financial services company would not appeal against the central bank's opposition to its holding possible merger talks with another financial company.

BANGKOK lost ground, reversing two days of steady gains ahead of tomorrow's foreign reserve figures. The SET index came off 11.40 or 2.3 per cent to 493.13.

Currency markets, heavily supported by the Thai central bank in recent weeks, remained nervous.

Bangkok Bank ended Bt5 lower at Bt114 and Thai Farmers Bank retreated Bt4.50 to Bt78.

JAKARTA ended 6.25 lower at 713.29 on the composite index after a session of steady profit-taking.

Tobacco shares fell steeply on a local press report that Gudang Garem's earnings for 1997 were likely to fall short of market expectations.

Garem shed Rp300 or 3 per cent to Rp9,575.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 23 1997								FRIDAY JUNE 20 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	240.16	-0.2	213.96	175.30	215.05	212.22	-0.4	3.63	240.62	215.69	174.40	216.68	213.03	240.62	188.44	203.85
Austria (24)	193.10	-0.2	172.03	140.95	172.92	172.83	-0.8	1.93	193.52	173.46	140.26	174.26	174.15	200.62	174.70	186.20
Belgium (26)	252.04	0.2	224.53	183.97	225.69	220.90	-0.4	3.24	251.52	225.46	182.30	226.49	221.75	255.87	206.70	207.18
Brazil (30)	292.22	1.0	260.34	213.30	261.67	579.28	0.9	1.25	289.33	259.35	209.70	260.54	574.01	292.72	170.26	178.37
Canada (112)	207.24	-1.1	184.63	151.27	185.57	208.47	-1.2	1.88	209.49	187.78	151.84	188.65	211.03	212.99	154.12	159.91
Denmark (32)	392.72	0.6	349.87	286.66	351.66	350.37	0.0	1.44	390.59	350.11	283.09	351.72	350.40	392.72	299.79	300.55
Finland (26)	280.97	2.3	250.31	205.09	251.80	303.55	1.5	1.81	274.61	246.15	199.03	247.28	299.05	280.97	186.67	192.75
France (90)	226.24	0.8	201.55	165.14	202.59	206.23	0.3	2.75	224.33	201.08	162.59	202.00	205.68	232.34	186.94	192.75
Germany (59)	217.59	-0.3	193.85	158.83	194.85	194.85	-0.9	1.45	218.33	195.70	158.24	196.60	196.60	218.33	168.70	169.44
Hong Kong (56)	532.13	-0.8	474.06	388.41	476.49	529.32	-0.7	2.86	536.36	480.78	388.74	482.99	533.16	536.36	407.55	425.00
Indonesia (27)	243.30	0.9	222.10	181.97	223.24	371.64	0.9	1.64	247.07	221.47	179.07	222.49	368.39	–	–	–
Ireland (17)	350.05	0.1	311.85	255.51	313.45	326.37	-0.1	2.90	349.86	313.60	253.57	315.05	326.74	354.64	270.08	289.33
Italy (58)	97.67	1.8	87.02	71.30	87.46	122.90	1.3	2.05	95.95	86.00	69.54	86.40	121.36	97.67	73.28	82.97
Japan (485)	136.08	-0.6	121.23	99.33	121.85	99.33	0.1	0.79	136.93	122.74	99.24	123.30	99.24	158.25	107.57	157.50
Malaysia (107)	519.84	-1.0	463.12	379.45	465.49	504.19	-0.9	1.36	525.30	470.87	380.73	473.03	508.78	680.85	510.10	584.02
Mexico (27)	1580.28	-0.1	1407.84	1153.49	1415.06	13799.03	0.2	1.35	1582.64	1418.63	1147.07	1425.16	13769.50	1582.64	1110.35	1201.88
Netherland (19)	400.26	0.6	356.58	292.16	358.41	353.99	0.1	2.20	397.83	356.60	288.34	358.24	353.78	400.26	279.88	293.16
New Zealand (14)	92.32	-0.9	82.25	67.39	82.67	71.75	-0.6	4.01	93.13	83.48	67.50	83.86	72.16	95.60	79.04	79.52
Norway (41)	309.95	0.4	276.13	226.24	277.55	304.87	0.1	2.02	308.60	276.62	223.67	277.89	304.59	321.23	248.04	253.40
Philippines (22)	166.80	-2.3	148.59	121.75	149.36	219.24	-2.3	0.85	170.71	153.02	123.73	153.72	224.42	–	–	–
Singapore (42)	388.39	1.8	346.01	283.50	347.78	255.82	2.0	1.19	381.44	341.91	276.46	343.48	250.89	448.01	360.06	423.35
South Africa (44)	360.78	1.3	321.41	263.34	323.06	354.69	1.0	2.44	356.14	319.23	258.12	320.70	351.06	370.12	301.49	360.79
Spain (35)	264.29	1.1	235.45	192.91	236.66	291.17	0.6	2.27	261.37	234.28	189.44	235.38	289.30	264.29	171.91	182.43
Sweden (49)	474.18	1.1	422.44	346.12	424.61	541.40	0.7	1.91	469.08	420.45	338.97	422.39	537.54	474.18	334.35	357.77
Switzerland (35)	313.84	0.9	279.60	229.08	281.03	279.05	0.4	1.20	311.07	278.83	225.45	280.11	277.88	313.84	231.69	239.08
Thailand (43)	54.13	9.5	48.23	39.51	48.47	54.83	9.4	5.72	49.44	44.32	35.83	44.52	49.95	172.92	47.55	165.89
United Kingdom (212)	300.72	0.2	267.91	219.51	269.28	267.91	-0.4	3.77	300.08	268.98	217.49	270.22	268.98	308.21	228.63	232.40
USA (647)	356.22	-2.1	317.35	260.02	318.98	356.22	-2.1	1.72	363.96	326.24	263.79	327.74	363.96	363.96	254.79	271.37
Americas (816)	326.02	-2.0	290.44	237.97	291.93	274.66	-2.0	1.72	332.73	298.25	241.16	299.62	280.32	332.73	233.09	247.84
Europe (726)	268.81	0.5	239.48	196.22	240.71	247.72	-0.1	2.60	267.48	239.76	193.87	240.87	247.87	268.81	204.71	209.41
Nordic (150)	405.32	1.1	361.09	295.85	362.94	400.90	0.7	1.84	400.84	359.30	290.52	360.95	398.29	405.32	291.45	305.30
Pacific Basin (882)	154.75	-0.6	137.87	112.96	138.57	113.88	0.0	1.25	155.62	139.50	112.79	140.14	113.90	170.85	127.18	170.10
Euro-Pacific (1608)	202.34	0.0	180.26	147.70	181.19	164.38	0.0	1.99	202.30	181.34	146.63	182.17	164.45	203.07	173.55	186.36
North America (759)	347.02	-2.1	309.15	253.30	310.73	346.40	-2.1	1.73	354.37	317.65	256.84	319.11	353.77	354.37	248.65	264.48
Europe Ex. UK (514)	244.92	0.7	218.19	178.77	219.31	230.36	0.1	1.96	243.33	218.11	176.36	219.12	230.07	244.92	185.65	191.63
Pacific Ex. Japan (397)	315.84	-0.4	281.37	230.54	282.82	277.51	-0.4	2.69	317.03	284.17	229.77	285.46	278.50	320.65	268.97	288.05
World Ex. US (1821)	205.91	0.0	183.45	150.30	184.39	171.06	-0.1	1.98	205.91	184.57	149.24	185.42	171.16	206.71	176.94	187.54
World Ex. UK (2256)	249.16	-1.1	221.97	181.87	223.11	219.58	-1.1	1.69	252.00	225.88	182.64	226.92	222.02	252.00	189.68	211.47
World Ex. Japan (1983)	314.07	-1.1	279.80	229.25	281.23	303.21	-1.3	2.06	317.48	284.58	230.10	285.89	307.07	317.48	233.10	244.45
The World Index (2468)	253.63	-1.0	225.96	185.14	227.12	224.20	-1.0	1.86	256.19	229.64	185.68	230.70	226.54	256.20	202.32	219.39

Latest prices were unavailable for this edition.